

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Paramount Group, Inc.  
Form 10-Q  
August 03, 2017  
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, 2017

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)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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  
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 14, 2017, there were 238,768,520 shares of the registrant's common stock outstanding.

---

## Table of Contents

Item	Page Number
Part I. Financial Information	
Item 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) as of June 30, 2017 and December 31, 2016</u>	3
<u>Consolidated Statements of Income (Unaudited) for the three and six months     _ ended June 30, 2017 and 2016</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the three and six months     _ ended June 30, 2017 and 2016</u>	5
<u>Consolidated Statements of Changes in Equity (Unaudited) for the six months     _ ended June 30, 2017 and 2016</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the six months     _ ended June 30, 2017 and 2016</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	61
Item 4. <u>Controls and Procedures</u>	63
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	64
Item 1A. <u>Risk Factors</u>	64
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
Item 3. <u>Defaults Upon Senior Securities</u>	64
Item 4. <u>Mine Safety Disclosures</u>	64
Item 5. <u>Other Information</u>	64

Item 6. <u>Exhibits</u>	64
<u>Signatures</u>	65

## PART I – FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## PARAMOUNT GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

ASSETS	June 30, 2017	December 31, 2016
Real estate, at cost		
Land	\$2,068,409	\$2,091,535
Buildings and improvements	5,726,499	5,757,558
	7,794,908	7,849,093
Accumulated depreciation and amortization	(397,972 )	(318,161 )
Real estate, net	7,396,936	7,530,932
Cash and cash equivalents	254,763	162,965
Restricted cash	42,384	29,374
Investments in unconsolidated joint ventures	45,644	6,411
Investments in unconsolidated real estate funds	22,001	28,173
Preferred equity investments	55,300	55,051
Marketable securities	21,564	22,393
Accounts and other receivables, net of allowance of \$232 and \$202	12,032	15,251
Deferred rent receivable	196,799	163,695
Deferred charges, net of accumulated amortization of \$14,220 and \$9,832	80,352	71,184
Intangible assets, net of accumulated amortization of \$173,087 and \$166,841	363,523	412,225
Assets held for sale	-	346,685
Other assets	26,205	22,829
Total assets <sup>(1)</sup>	\$8,517,503	\$8,867,168
LIABILITIES AND EQUITY		
Notes and mortgages payable, net of deferred financing costs of \$46,255 and \$43,281	\$3,308,845	\$3,364,898
Revolving credit facility	-	230,000
Due to affiliates	27,299	27,299
Accounts payable and accrued expenses	83,334	103,896
Dividends and distributions payable	25,211	25,151
Deferred income taxes	1,283	1,467
Interest rate swap liabilities	1,819	22,446
Intangible liabilities, net of accumulated amortization of \$63,845 and \$55,349	133,748	153,018
Other liabilities	50,053	53,046
Total liabilities <sup>(1)</sup>	3,631,592	3,981,221
Commitments and contingencies		

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Paramount Group, Inc. equity:

Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 238,283,591 and 230,015,356 shares in 2017 and 2016, respectively	2,382	2,300
Additional paid-in-capital	4,254,386	4,116,987
Earnings less than distributions	(71,037 )	(129,654 )
Accumulated other comprehensive income	143	372
Paramount Group, Inc. equity	4,185,874	3,990,005
Noncontrolling interests in:		
Consolidated joint ventures	229,133	253,788
Consolidated real estate fund	14,833	64,793
Operating Partnership (26,771,872 and 34,511,214 units outstanding)	456,071	577,361
Total equity	4,885,911	4,885,947
Total liabilities and equity	\$8,517,503	\$8,867,168

- (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 89.9% as of June 30, 2017. The assets and liabilities of the Operating Partnership, as of June 30, 2017, include \$1,466,918 and \$1,026,938 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 12, 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,	
	2017	2016	2017	2016
<b>REVENUES:</b>				
Rental income	\$158,187	\$155,181	\$313,577	\$296,433
Tenant reimbursement income	11,856	10,334	24,708	21,123
Fee and other income	7,661	6,788	20,655	27,665
Total revenues	177,704	172,303	358,940	345,221
<b>EXPENSES:</b>				
Operating	63,461	59,994	129,432	122,939
Depreciation and amortization	68,636	67,287	131,628	142,099
General and administrative	16,573	12,139	30,154	26,100
Transaction related costs	502	508	777	1,443
Total expenses	149,172	139,928	291,991	292,581
Operating income	28,532	32,375	66,949	52,640
Income from unconsolidated joint ventures	16,535	2,003	18,472	3,499
Loss from unconsolidated real estate funds	(2,411 )	(960 )	(2,123 )	(1,286 )
Interest and other income, net	2,486	1,030	5,686	2,730
Interest and debt expense	(34,817 )	(38,009 )	(71,835 )	(75,128 )
Debt breakage costs	(5,162 )	-	(7,877 )	-
Gain on sale of real estate	133,989	-	133,989	-
Unrealized gain on interest rate swaps	-	10,073	1,802	16,933
Net income (loss) before income taxes	139,152	6,512	145,063	(612 )
Income tax (expense) benefit	(970 )	1,398	(5,252 )	1,035
Net income	138,182	7,910	139,811	423
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,897 )	(4,107 )	(3,188 )	(5,359 )
Consolidated real estate fund	(20,169 )	78	(20,081 )	752
Operating Partnership	(13,100 )	(693 )	(13,154 )	878
Net income (loss) attributable to common stockholders	\$103,016	\$3,188	\$103,388	\$(3,306 )
<b>INCOME (LOSS) PER COMMON SHARE - BASIC:</b>				
Income (loss) per common share	\$0.44	\$0.01	\$0.44	\$(0.02 )
Weighted average shares outstanding	234,990,468	217,121,592	232,968,602	214,762,593



Edgar Filing: Paramount Group, Inc. - Form 10-Q

INCOME (LOSS) PER COMMON SHARE -  
DILUTED:

Income (loss) per common share	\$0.44	\$0.01	\$0.44	\$(0.02 )
Weighted average shares outstanding	235,010,830	217,137,557	232,995,822	214,762,593
DIVIDENDS PER COMMON SHARE	\$0.095	\$0.095	\$0.190	\$0.190

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net income	\$138,182	\$7,910	\$139,811	\$423
Other comprehensive income (loss):				
Change in value of interest rate swaps	(4,041 )	(11,747)	(9 )	(41,614)
Pro rata share of other comprehensive income (loss) of				
unconsolidated joint ventures	35	(44 )	(187 )	63
Comprehensive income (loss)	134,176	(3,881 )	139,615	(41,128)
Less comprehensive (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,897 )	(4,107 )	(3,188 )	(5,359 )
Consolidated real estate fund	(20,169 )	78	(20,081 )	752
Operating Partnership	(12,647 )	1,415	(13,187 )	8,774
Comprehensive income (loss) attributable to				
common stockholders	\$99,463	\$(6,495 )	\$103,159	\$(36,961)

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands, except per share and unit amounts)	Common Shares				Noncontrolling Interests in				
	Shares	Amount	Additional Paid-in-Capital	Earnings Less than Distributions	Accumulated Other Comprehensive Income (Loss)	Consolidated Investment Ventures	Consolidated Real Estate Funds	Consolidated Operating Partnership	Total Equity
Balance as of December 31, 2015	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843)	\$236,849	\$414,637	\$898,047	\$5,310,550
Deconsolidation of real estate fund investments upon adoption of ASU 2015-02	-	-	-	-	-	-	(351,035)	-	(351,035)
Balance as of January 1, 2016	212,112	2,122	3,802,858	(36,120)	(7,843)	236,849	63,602	898,047	4,959,515
Net income (loss)	-	-	-	(3,306)	-	5,359	(752)	(878)	423
Common shares issued upon redemption of common units	7,277	73	124,006	-	-	-	-	(124,079)	-
Common shares issued under Omnibus share plan	101	-	-	-	-	-	-	-	-
Dividends and distributions (\$0.190 per share and unit)	-	-	-	(41,090)	-	-	-	(9,208)	(50,298)
Distributions to noncontrolling	-	-	-	-	-	(1,740)	-	-	(1,740)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

interests									
Change in value of interest rate swaps	-	-	-	-	(33,705)	-	-	(7,909)	(41,614)
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	50	-	-	13	63
Amortization of equity awards	-	-	1,175	-	-	-	-	5,544	6,719
Other	-	-	(167)	20	-	15	7	-	(125)
Balance as of June 30, 2016	219,490	\$2,195	\$3,927,872	\$(80,496)	\$(41,498)	\$240,483	\$62,857	\$761,530	\$4,872,943
Balance as of December 31, 2016	230,015	\$2,300	\$4,116,987	\$(129,654)	\$372	\$253,788	\$64,793	\$577,361	\$4,885,947
Net income	-	-	-	103,388	-	3,188	20,081	13,154	139,811
Common shares issued upon redemption of common units	8,207	82	135,877	-	-	-	-	(135,959)	-
Common shares issued under Omnibus share plan, net of shares withheld for taxes	62	-	-	(154)	-	-	-	-	(154)
Dividends and distributions (\$0.190 per share and unit)	-	-	-	(44,617)	-	-	-	(5,801)	(50,418)
Contributions from noncontrolling interests	-	-	-	-	-	4,973	4,305	-	9,278
Distributions to noncontrolling interests	-	-	-	-	-	(32,816)	(74,346)	-	(107,162)
Change in value of interest rate swaps	-	-	-	-	(67)	-	-	58	(9)
	-	-	-	-	(162)	-	-	(25)	(187)

Pro rata share of other comprehensive loss									
of unconsolidated joint ventures									
Amortization of equity awards	-	-	1,522	-	-	-	7,283	8,805	
Balance as of June 30, 2017	238,284	\$2,382	\$4,254,386	\$(71,037 )	\$143	\$229,133	\$14,833	\$456,071	\$4,885,911

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 139,811	\$ 423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,628	142,099
Amortization of deferred financing costs	5,548	2,663
Gain on sale of real estate	(133,989)	-
Straight-lining of rental income	(32,121 )	(44,542 )
Amortization of above and below-market leases, net	(10,989 )	(3,481 )
Debt breakage costs	7,877	-
Unrealized gain on interest rate swaps	(1,802 )	(16,933 )
Realized and unrealized (gains) losses on marketable securities	(2,486 )	312
Income from unconsolidated joint ventures	(18,472 )	(3,499 )
Distributions of earnings from unconsolidated joint ventures	2,758	4,864
Loss from unconsolidated real estate funds	2,123	1,286
Distributions of earnings from unconsolidated real estate funds	146	200
Amortization of stock-based compensation expense	7,867	6,183
Other non-cash adjustments	(26 )	957
Changes in operating assets and liabilities:		
Accounts and other receivables	3,102	(165 )
Deferred charges	(14,297 )	(7,165 )
Other assets	7,294	(4,942 )
Accounts payable and accrued expenses	(15,257 )	54,937
Deferred income taxes	(143 )	(2,287 )
Other liabilities	3,420	1,066
Net cash provided by operating activities	81,992	131,976
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of real estate	540,333	-
Additions to real estate	(33,079 )	(73,840 )
Investments in unconsolidated joint ventures	(28,791 )	-
Distributions of capital from unconsolidated joint ventures	20,000	-
Deposit on real estate	(12,914 )	-
Changes in restricted cash	(12,697 )	12,512
Distributions of capital from unconsolidated real estate funds	3,845	-

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Contributions of capital to unconsolidated real estate funds	(584	)	-
Net cash provided by (used in) investing activities	476,113		(61,328)

See notes to consolidated financial statements (unaudited).

7

---

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of notes and mortgages payable	\$(1,044,821)	\$(414,202)
Proceeds from notes and mortgages payable	991,556	506,627
Repayment of borrowings under revolving credit facility	(290,000 )	(60,000 )
Borrowings under revolving credit facility	60,000	60,000
Distributions to noncontrolling interests	(107,162 )	(1,740 )
Dividends paid to common stockholders	(43,832 )	(40,390 )
Settlement of interest rate swap liabilities	(19,425 )	(16,040 )
Contributions from noncontrolling interests	9,278	-
Debt breakage costs	(7,877 )	-
Debt issuance costs	(7,344 )	(6,487 )
Distributions paid to common unitholders	(6,526 )	(9,824 )
Repurchase of shares related to stock compensation agreements		
and related tax withholdings	(154 )	-
Net cash (used in) provided by financing activities	(466,307 )	17,944
Net increase in cash and cash equivalents	91,798	88,592
Cash and cash equivalents at beginning of period	162,965	143,884
Decrease in cash due to deconsolidation of real estate fund investments	-	(7,987 )
Cash and cash equivalents at end of period	\$254,763	\$224,489
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash payments for interest	\$73,817	\$68,957
Cash payments for income taxes, net of refunds	3,191	1,319
<b>NON-CASH TRANSACTIONS:</b>		
Common shares issued upon redemption of common units	\$135,959	\$124,079
Dividends and distributions declared but not yet paid	25,211	25,151
Write-off of fully amortized and/or depreciated assets	4,930	5,379
Additions to real estate included in accounts payable and accrued expenses	8,988	10,678
(Sales) purchases of marketable securities resulting in an (increase) decrease		
to restricted cash	(3,313 )	268
Change in fair value of interest rate swaps	9	41,614



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Decrease) increase due to deconsolidation of 75 Howard:		
Investments in unconsolidated joint ventures	14,915	-
Real estate, net	(14,915 )	-
(Decrease) increase due to deconsolidation of real estate fund investments:		
Real estate fund investments	-	(416,438)
Loans payable to noncontrolling interests	-	(45,662 )
Investments in unconsolidated real estate funds	-	27,292
Noncontrolling interests in consolidated real estate funds	-	(351,035)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 1. Organization and Business

As used in these consolidated financial statements, unless otherwise indicated, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware Limited Partnership. We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of June 30, 2017, our portfolio consisted of 13 Class A office properties aggregating approximately 11.8 million square feet. We conduct our business through, and substantially all of our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 89.9% of, the Operating Partnership as of June 30, 2017.

## 2. Basis of Presentation and Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. All significant inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2017, are not necessarily indicative of the operating results for the full year.

#### Significant Accounting Policies

There are no material changes to our significant accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

#### Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standard's Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, an update to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. We plan to implement ASU 2014-09 on January 1, 2018, using the modified retrospective approach and do not believe the adoption will have a material impact on our consolidated financial statements.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, Leases. ASU 2016-02 amends the existing guidance for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either financing or operating and recording a right-of-use asset and a lease liability for all leases with a term greater than 12 months. ASU 2016-02 requires lessors to account for leases using an approach that is substantially similar to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We plan to adopt the provisions of ASU 2016-02 on January 1, 2019 using the modified retrospective approach. While we believe that the key changes in ASU 2016-02 relate to the separation of and allocation of consideration to, lease component (rental income) and non-lease components (revenue related to various services we provide), we continue to evaluate the other potential implications that this update will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2016-09 improves the accounting for share-based payments including income tax consequences and the classification of awards as either equity awards or liability awards. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016, with early adoption permitted. We adopted the provisions of ASU 2016-09 on January 1, 2017. This adoption did not have any impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, an update to ASC Topic 326, Financial Instruments – Credit Losses. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are evaluating the impact of ASU 2016-13 but do not believe the adoption will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, an update to ASC Topic 230, Statement of Cash Flows to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We adopted the provisions of ASU 2016-15 retrospectively on January 1, 2017. This adoption did not have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, an update to ASC Topic 810, Consolidation. ASU 2016-17 requires a reporting entity to consider only its proportionate indirect interest in the VIE held through a common control party in evaluating whether it is the primary beneficiary of a VIE. Currently, ASU 2015-02 requires the reporting entity to treat the common control party's interest in the VIE as if the reporting entity held the interest itself. ASU 2016-17 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We adopted the provisions of ASU 2016-17 on January 1, 2017. This adoption did not have any impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, an update to ASC Topic 230, Statement of Cash Flows to provide guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include restricted cash with cash and cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We will adopt the provisions of ASU 2016-18 on January 1, 2018. This adoption will impact the presentation of our consolidated statements of cash flows, as well as require additional disclosures to reconcile cash and cash equivalents and restricted cash on our consolidated balance sheets to our consolidated statements of cash flows.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In January 2017, the FASB issued ASU 2017-01, an update to ASC Topic 805, Business Combinations. ASU 2017-01 narrows the definition of a business and provides a framework for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 clarifies that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 also requires that a set cannot be considered a business unless it includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. We adopted the provisions of ASU 2017-01 on October 1, 2016 and concluded that the acquisition of our One Front Street property in December 2016 did not meet the definition of a business and therefore was treated as an asset acquisition.

In February 2017, the FASB issued ASU 2017-05, an update to ASC Topic 610, Other Income. ASU 2017-05 clarifies the scope and accounting for derecognition of a nonfinancial asset and eliminates the guidance in ASC 360-20 specific to real estate sales and partial sales. ASU 2017-05 requires an entity that transfers control of a nonfinancial asset to measure any noncontrolling interest it retains (or receives) at fair value. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for entities concurrently early adopting ASU 2014-09. We plan to adopt the provisions of ASU 2017-05 on January 1, 2018, using the modified retrospective approach. Upon adoption, we anticipate recording an adjustment to “investments in unconsolidated joint ventures” relating to the measurement of our consolidated Residential Development Fund’s (“RDF”) retained interest in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) at fair value. See Note 4, Investments in Unconsolidated Joint Ventures.

In May 2017, the FASB issued ASU 2017-09, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2017-09 clarifies the types of changes to the terms and conditions of a share-based payment award that requires modification accounting. ASU 2017-09 does not change the accounting for modification of share-based awards, but clarifies that modification accounting should only be applied if there is a change to the value, vesting condition or award classification and would not be required if the changes are considered non-substantive. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years that begin after December 31, 2017, with early adoption permitted. We will adopt the provisions of ASU 2017-09 on January 1, 2018 and do not believe that the adoption of ASU 2017-09 will have an impact on our consolidated financial statements.

### 3. Dispositions

#### Waterview

On May 3, 2017, we completed the sale of Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia for \$460,000,000 and recognized a net gain of \$110,583,000, which is included as a component of “gain on sale of real estate” on our consolidated statements of income for the three and six months June 30, 2017.

The following table sets forth the details of the assets of Waterview that were classified as held-for-sale as of December 31, 2016.

(Amounts in thousands)	
Land	\$78,300
Building and improvements, net	251,671
Deferred charges	14,512
Deferred rent receivable	2,202
Assets held for sale	\$346,685

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 4. Investments in Unconsolidated Joint Ventures

On January 24, 2017, a joint venture in which we have a 5.0% ownership interest, acquired 60 Wall Street, a 1.6 million square foot office tower in Manhattan, for \$1.04 billion from certain of our real estate funds (see Note 5, Real Estate Fund Investments). In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property. We began accounting for our investment in 60 Wall Street, under the equity method, from the date of the acquisition.

Prior to May 5, 2017, our consolidated Residential Development Fund (“RDF”), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) in San Francisco, California. On May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net gain on sale, of which our share, net of income taxes, was \$1,661,000. Subsequent to the sale, RDF deconsolidated its investment in 75 Howard and began accounting for the remaining 20.0% under the equity method of accounting, however, we continue to consolidate our interest in RDF. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

The following tables summarize our investments in unconsolidated joint ventures as of June 30, 2017 and December 31, 2016 and income from these investments for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	Paramount	As of	
Our Share of Investments:	Ownership	June 30,	December
		2017	31, 2016
712 Fifth Avenue	50.0%	\$-	(1)\$ 2,912
60 Wall Street	5.0%	26,451	-
75 Howard	20.0%	(2) 15,882	-
Oder-Center, Germany	9.5%	3,311	3,499
Investments in unconsolidated joint ventures		\$45,644	\$ 6,411



(Amounts in thousands)	Paramount Ownership	For the Three Months Ended		For the Six Months Ended	
		June 30, 2017	2016	June 30, 2017	2016
Our Share of Net Income (Loss):					
712 Fifth Avenue	50.0%	\$16,504	(1)\$1,985	\$18,434	(1)\$3,461
60 Wall Street	5.0%	(31 )	-	(36 )	-
75 Howard	20.0%	(2) 33	-	33	-
Oder-Center, Germany	9.5%	29	18	41	38
Income from unconsolidated joint ventures		\$16,535	\$2,003	\$18,472	\$3,499

<sup>(1)</sup>On June 13, 2017, we completed a \$300,000 refinancing of the property. As of June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of the net proceeds from the refinancing. In accordance with GAAP, because we have no further obligation to fund additional capital to the venture, we have accounted for the \$15,072 distribution in excess of our basis, as income. This amount is included as a component of “income from unconsolidated joint ventures” on our consolidated statements of income for the three and six months ended June 30, 2017

<sup>(2)</sup>Represents RDF’s ownership interest in the property. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

712 Fifth Avenue

The following tables provide summarized financial information of 712 Fifth Avenue as of the dates and for the periods set forth below.

(Amounts in thousands)	As of	
Balance Sheets:	June 30,	December
	2017	31, 2016
Real estate, net	\$206,617	\$207,632
Other assets	51,374	40,701
Total assets	\$257,991	\$248,333
Notes and mortgages payable, net	\$295,949	\$245,990
Other liabilities	4,447	8,783
Total liabilities	300,396	254,773
Equity <sup>(1)</sup>	(42,405 )	(6,440 )
Total liabilities and equity	\$257,991	\$248,333

<sup>(1)</sup>As of June 30, 2017, the carrying amount of our investment is greater than our share of the equity by approximately \$21,202. This basis difference resulted from distributions in excess of the equity in net earnings of the property.

(Amounts in thousands)	For the Three		For the Six	
	Months Ended		Months Ended	
	June 30,	June 30,	June 30,	June 30,
Income Statements:	2017	2016	2017	2016
Rental income	\$12,713	\$12,716	\$25,658	\$25,394
Tenant reimbursement income	1,209	893	2,517	2,009
Fee and other income	468	677	594	1,195
Total revenues	14,390	14,286	28,769	28,598

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Operating expenses	6,102	5,375	12,068	10,992
Depreciation and amortization	3,075	3,043	5,995	6,051
Total expenses	9,177	8,418	18,063	17,043
Operating income	5,213	5,868	10,706	11,555
Interest and other income, net	48	19	72	33
Interest and debt expense	(3,126 )	(2,752 )	(5,951 )	(5,500 )
Unrealized gain on interest rate swaps	728	834	1,896	834
Net income	\$2,863	\$3,969	\$6,723	\$6,922

## 5. Real Estate Fund Investments

### Unconsolidated Real Estate Funds

We manage four Property Funds comprised of (i) Paramount Group Real Estate Fund II, L.P. (“Fund II”), (ii) Paramount Group Real Estate Fund III, L.P. (“Fund III”), (iii) Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and (iv) Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”). We also manage Paramount Group Real Estate Fund VIII L.P. (“Fund VIII”), our Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments.

As of December 31, 2016, Fund II and Fund III collectively owned a 62.3% interest in 60 Wall Street, a 1.6 million square foot office tower in Manhattan. On January 24, 2017, Fund II and Fund III, together with the other investors that owned the remaining 37.7% interest, sold their interests in 60 Wall Street to a newly formed joint venture, in which we have a 5.0% ownership interest. Accordingly, beginning on January 24, 2017, we began accounting for our investment in 60 Wall Street under the equity method. See Note 4, Investments in Unconsolidated Joint Ventures.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables summarize our investments in these unconsolidated real estate funds as of June 30, 2017 and December 31, 2016, and income or loss recognized from these investments for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	As of	
	June 30, 2017	December 31, 2016
Our Share of Investments:		
Property funds	\$16,749	\$22,811
Alternative investment fund	5,252	5,362
Investments in unconsolidated real estate funds	\$22,001	\$28,173

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Our Share of Net Loss:				
Net investment income (loss)	\$71	\$(68)	\$124	\$(607)
Net realized (loss) gain	(5)	-	174	-
Net unrealized loss	(324)	(2,807)	(228)	(2,578)
Carried interest	(2,153)	1,915	(2,193)	1,899
Loss from unconsolidated real estate funds <sup>(1)</sup>	\$(2,411)	\$(960)	\$(2,123)	\$(1,286)

<sup>(1)</sup>Excludes asset management and other fee income from real estate funds, which is included as a component of “fee and other income” in our consolidated statements of income.

As of June 30, 2017, we own a 10.0% interest in Fund II, a 3.1% interest in Fund III, and a 7.5% interest in Fund VII, all of which are accounted for under the equity method. The following tables provide summarized financial

Edgar Filing: Paramount Group, Inc. - Form 10-Q

information for Fund II, Fund III and Fund VII as of the dates and for the periods set forth below.

(Amounts in thousands)	As of June 30, 2017			As of December 31, 2016		
	Fund II	Fund III	Fund VII	Fund II	Fund III	Fund VII
Balance Sheets:						
Real estate investments	\$11,151	\$19,669	\$158,822	(1)\$64,989	\$39,376	\$165,556 (1)
Cash and cash equivalents	882	2,102	2,676	1,297	2,221	741
Other assets	115	-	97	127	-	-
Total assets	\$12,148	\$21,771	\$161,595	\$66,413	\$41,597	\$166,297
Other liabilities	\$90	\$75	\$1,531	\$60	\$49	\$1,483
Total liabilities	90	75	1,531	60	49	1,483
Equity	12,058	21,696	160,064	66,353	41,548	164,814
Total liabilities and equity	\$12,148	\$21,771	\$161,595	\$66,413	\$41,597	\$166,297

(1)Includes \$122,677 and \$123,105 as of June 30, 2017 and December 31, 2016, respectively, attributable to the investment in 50 Beale Street, which was sold on July 17, 2017. See Note 22, Subsequent Events.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30,					
	2017			2016		
Income Statements:	Fund II	Fund III	Fund VII	Fund II	Fund III	Fund VII
Investment income	\$1	\$1	\$777	\$1	\$-	\$-
Investment expenses	82	107	560	696	86	481
Net investment (loss) income	(81 )	(106 )	217	(695 )	(86 )	(481 )
Net realized losses	-	-	(66 )	-	-	-
Net unrealized gains (losses)	17	(29 )	(4,456)	(33,304)	(11,353)	11,638
(Loss) income from real estate						
fund investments	\$(64 )	\$(135 )	\$(4,305)	\$(33,999)	\$(11,439)	\$11,157

(Amounts in thousands)	For the Six Months Ended June 30,					
	2017			2016		
Income Statements:	Fund II	Fund III	Fund VII	Fund II	Fund III	Fund VII
Investment income	\$1	\$1,141	\$962	\$2	\$-	\$-
Investment expenses	278	117	1,036	1,383	138	1,011
Net investment (loss) income	(277 )	1,024	(74 )	(1,381 )	(138 )	(1,011 )
Net realized losses	(15,201)	(5,253)	(66 )	-	-	-
Net unrealized (losses) gains	(4,980 )	(3,018)	(4,321)	(31,878)	(10,728)	12,744
(Loss) income from real estate						
fund investments	\$(20,458)	\$(7,247)	\$(4,461)	\$(33,259)	\$(10,866)	\$11,733

## 6. Preferred Equity Investments

As of June 30, 2017, we own a 24.4% interest in PGRESS Equity Holdings L.P., an entity that owns certain preferred equity investments that are consolidated into our consolidated financial statements. The following is a summary of the preferred equity investments.

(Amounts in thousands, except square feet) Paramount Dividend Initial As of

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Preferred Equity Investment	Ownership	Rate	Maturity	June 30, 2017	December 31, 2016
470 Vanderbilt Avenue <sup>(1)</sup>	24.4%	10.3%	Feb-2019	\$35,712	\$35,613
2 Herald Square <sup>(2)</sup>	24.4%	10.3%	Apr-2017	19,588	19,438
Total preferred equity investments				\$55,300	\$55,051

<sup>(1)</sup>Represents a \$33,750 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 650,000 square foot office building in Brooklyn, New York. The preferred equity has a dividend rate of 10.3%, of which 8.0% was paid in cash through February 2016 and the unpaid portion accreted to the balance of the investment. Subsequent to February 2016, the entire 10.3% dividend is being paid in cash.

<sup>(2)</sup>Represents a \$17,500 preferred equity investment in a partnership that owns 2 Herald Square, a 369,000 square foot office retail property in Manhattan. The preferred equity had a dividend rate of 10.3%, of which 7.0% was paid and the remainder accreted to the balance of the investment. The preferred equity investment had two one-year extension options. On April 11, 2017, the partnership that owns 2 Herald Square defaulted on the obligation to extend the maturity date or redeem the preferred equity investment, together with accrued and unpaid dividends and we are currently in active negotiations with the borrower to resolve the matter.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 7. Intangible Assets and Liabilities

The following table summarizes our intangible assets (acquired above-market leases and acquired in-place leases) and intangible liabilities (acquired below-market leases) as of June 30, 2017 and December 31, 2016.

	As of	
(Amounts in thousands)	June 30, 2017	December 31, 2016
Intangible assets:		
Gross amount	\$536,610	\$579,066
Accumulated amortization	(173,087)	(166,841)
	\$363,523	\$412,225
Intangible liabilities:		
Gross amount	\$197,593	\$208,367
Accumulated amortization	(63,845 )	(55,349 )
	\$133,748	\$153,018

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$7,981,000 and \$7,100,000 for the three months ended June 30, 2017 and 2016, respectively, and \$10,989,000 and \$3,481,000 for the six months ended June 30, 2017 and 2016, respectively. The six months ended June 30, 2016 included \$9,834,000 of expense, from the write-off of an above-market lease asset in connection with the termination of a tenant's lease. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2018 is as follows.

(Amounts in thousands)	
2018	\$12,558
2019	10,775
2020	8,765
2021	4,509
2022	1,144

Amortization of acquired in-place leases (a component of depreciation and amortization expense) was \$22,649,000 and \$23,463,000 for the three months ended June 30, 2017 and 2016, respectively, and \$40,423,000 and \$54,155,000 for the six months ended June 30, 2017 and 2016, respectively. Estimated annual amortization of acquired in-place



Edgar Filing: Paramount Group, Inc. - Form 10-Q

leases for each of the five succeeding years commencing January 1, 2018 is as follows.

(Amounts in thousands)

2018	\$52,556
2019	46,561
2020	39,776
2021	27,645
2022	23,031

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 8. Debt

On January 19, 2017, we completed a \$975,000,000 refinancing of One Market Plaza, a 1.6 million square foot Class A office and retail property in San Francisco, California. The new seven-year interest-only loan matures in February 2024 and has a fixed rate of 4.03%. In connection therewith, we incurred \$2,715,000 of prepayment costs, which is included in “debt breakage costs” on our consolidated statements of income for the six months ended June 30, 2017.

The following is a summary of our outstanding debt as of June 30, 2017 and December 31, 2016.

(Amounts in thousands)	Maturity Date	Fixed/ Variable Rate	Interest Rate as of June 30, 2017	As of June 30, 2017	December 31, 2016
Notes and mortgages payable:					
1633 Broadway					
	Dec-2022	Fixed <sup>(1)</sup>	3.54 %	\$1,000,000	\$1,000,000
	Dec-2022	L + 175 bps	2.80 %	30,100 <sup>(2)</sup>	13,544 <sup>(2)</sup>
			3.52 %	1,030,100	1,013,544
One Market Plaza (49.0% interest)					
	Feb-2024	Fixed	4.03 %	975,000	860,546
	n/a	n/a	n/a	-	12,414
			4.03 %	975,000	872,960
1301 Avenue of the Americas					
	Nov-2021	Fixed	3.05 %	500,000	500,000
	Nov-2021	L + 180 bps	2.86 %	350,000	350,000
			2.97 %	850,000	850,000
31 West 52nd Street					
	May-2026	Fixed	3.80 %	500,000	500,000
1899 Pennsylvania Avenue <sup>(3)</sup>					
	n/a	n/a	n/a	-	87,675
Liberty Place <sup>(3)</sup>					
	n/a	n/a	n/a	-	84,000
Total notes and mortgages			3.57 %	3,355,100	3,408,179

payable					
Less: deferred financing costs				(46,255 )	(43,281 )
Total notes and mortgages					
payable, net				\$3,308,845	\$3,364,898
Revolving Credit Facility	Nov-2018	L + 125 bps	n/a	\$-	\$230,000

- (1) Represents loan with variable interest rates that has been fixed by interest rate swaps. See Note 9, Derivative Instruments and Hedging Activities.
- (2) Represents amounts outstanding under an option to increase the loan balance up to \$250,000, at LIBOR plus 175 basis points, if certain performance hurdles relating to the property are satisfied.
- (3) These loans were repaid on May 3, 2017. In connection with the repayment, we incurred an aggregate of \$5,162 of prepayment costs, which are included in “debt breakage costs” on our consolidated statements of income for the three and six months ended June 30, 2017.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 9. Derivative Instruments and Hedging Activities

We manage our market risk on variable rate debt by entering into interest rate swaps to fix the rate on all or a portion of the debt for varying periods through maturity. These interest rate swaps are accounted for as derivative instruments and, pursuant to ASC Topic 815, are recorded on our consolidated balance sheets at fair value. Changes in the fair value of interest rate swaps are accounted for based on the hedging relationship and their designation and qualification. We have agreements with various derivative counterparties that contain provisions wherein a default on our indebtedness could be deemed a default on our derivative obligations, which would require us to either post collateral up to the fair value of our derivative obligations or settle the obligations for cash. As of June 30, 2017, the fair value of the derivative obligations with such provisions aggregated \$1,588,000.

## Interest Rate Swaps – Designated as Cash Flow Hedges

As of June 30, 2017, we have interest rate swaps with an aggregate notional amount of \$1.0 billion that are designated as cash flow hedges. We also have entered into a forward starting interest rate swaps with an aggregate notional amount of \$400,000,000 to extend the maturity of certain swaps for an additional year. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in “other comprehensive income (loss)” (outside of earnings). We recognized other comprehensive loss of \$4,041,000 and \$11,747,000 for the three months ended June 30, 2017 and 2016, respectively and other comprehensive loss of \$9,000 and \$41,614,000 for the six months ended June 30, 2017 and 2016, respectively, from the changes in the fair value of these interest rate swaps. During the next twelve months, we estimate that \$4,259,000 of the amounts recognized in accumulated other comprehensive income (loss) will be reclassified as an increase to interest expense. The table below provides additional details on our interest rate swaps that are designated as cash flow hedges.

	Notional			Strike	Fair Value as of June 30, 2017
Property	Amount	Effective Date	Maturity Date	Rate	
(Amounts in thousands)					
1633 Broadway	\$400,000	Dec-2015	Dec-2020	1.65 %	\$ 730 \$ 730

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Total interest rate swap assets designated as cash flow hedges  
(included in "other assets")

1633 Broadway	\$300,000	Dec-2015	Dec-2022	1.95 %	\$ 993
1633 Broadway	300,000	Dec-2015	Dec-2021	1.82 %	167
1633 Broadway	400,000	Dec-2020	Dec-2021	2.35 %	659

Total interest rate swap liabilities designated as cash flow hedges

\$ 1,819

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of December 31, 2016
(Amounts in thousands)					
1633 Broadway	\$400,000	Dec-2020	Dec-2021	2.35 %	\$ 139

Total interest rate swap assets designated as cash flow hedges  
(included in "other assets")

\$ 139

1633 Broadway	\$300,000	Dec-2015	Dec-2022	1.95 %	\$ 828
1633 Broadway	300,000	Dec-2015	Dec-2021	1.82 %	379
1633 Broadway	400,000	Dec-2015	Dec-2020	1.65 %	12

Total interest rate swap liabilities designated as cash flow hedges

\$ 1,219

Interest Rate Swaps – Non-designated Hedges

As of June 30, 2017, we did not have any interest rate swaps that were not designated as hedges. As of December 31, 2016, we had interest rate swap liabilities that had a fair value of \$21,227,000, which were terminated on January 19, 2017 in connection with the refinancing of One Market Plaza. See Note 8, Debt for additional details. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. We recognized unrealized gains of \$1,802,000 for the six months ended June 30, 2017 and \$10,073,000 and \$16,933,000 for the three and six months ended June 30, 2016, respectively, from the changes in the fair value of these interest rate swaps.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 10. Accumulated Other Comprehensive Income (Loss)

The following table sets forth changes in accumulated other comprehensive income, by component for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Amount of loss related to the effective portion of cash				
flow hedges recognized in other comprehensive loss <sup>(1)</sup>	\$(5,345)	\$(12,442)	\$(4,039)	\$(39,281)
Amounts reclassified from accumulated other				
comprehensive income into interest expense <sup>(1)</sup>	1,760	2,795	3,972	5,576
Amount of income (loss) related to unconsolidated joint				
ventures recognized in other comprehensive loss <sup>(1) (2)</sup>	32	(35 )	(162 )	50
Amount of gain (loss) related to the ineffective portion of cash				
flow hedges and amount excluded from effectiveness testing	-	-	-	-

<sup>(1)</sup>Net of amount attributable to the noncontrolling interests in the Operating Partnership.

<sup>(2)</sup>Balance held in accumulated other comprehensive income (loss) relates to foreign currency translation adjustments. No amounts were reclassified from accumulated other comprehensive income (loss) during any of the periods set forth above.

## 11. Noncontrolling Interests

## Consolidated Joint Ventures

Noncontrolling interests in consolidated joint ventures consist of equity interests held by third parties in One Market Plaza and PGRESS Equity Holdings L.P. As of June 30, 2017 and December 31, 2016, noncontrolling interests in our consolidated joint ventures aggregated \$229,133,000 and \$253,788,000, respectively.

#### Consolidated Real Estate Fund

Noncontrolling interests in our consolidated real estate fund consists of equity interests held by third parties in the RDF. As of June 30, 2017 and December 31, 2016, the noncontrolling interest in our consolidated real estate fund aggregated \$14,833,000 and \$64,793,000, respectively.

#### Operating Partnership

Noncontrolling interests in the Operating Partnership represent common units of the Operating Partnership that are held by third parties, including management, and units issued to management under equity incentive plans. Common units of the Operating Partnership may be tendered for redemption to the Operating Partnership for cash. We, at our option, may assume that obligation and pay the holder either cash or common shares on a one-for-one basis. Since the number of common shares outstanding is equal to the number of common units owned by us, the redemption value of each common unit is equal to the market value of each common share and distributions paid to each common unitholder is equivalent to dividends paid to common stockholders. As of June 30, 2017 and December 31, 2016, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of \$456,071,000 and \$577,361,000, respectively and a redemption value of \$428,350,000 and \$551,834,000, respectively.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 12. Variable Interest Entities (“VIEs”)

In the normal course of business, we are the general partner of various types of investment vehicles, which may be considered VIEs. We may, from time to time, own equity or debt securities through vehicles, each of which are considered variable interests. Our involvement in financing the operations of the VIEs is generally limited to our investments in the entity. We consolidate these entities when we are determined to be the primary beneficiary.

## Consolidated VIEs

We are the sole general partner of, and own approximately 89.9% of, the Operating Partnership as of June 30, 2017. The Operating Partnership is considered a VIE and is consolidated in our consolidated financial statements. Since we conduct our business through, and substantially all of our interests are held by the Operating Partnership, the assets and liabilities on our consolidated financial statements represent the assets and liabilities of the Operating Partnership. As of June 30, 2017 and December 31, 2016, the Operating Partnership held variable interests in the entities owning a real estate fund, preferred equity investments and a property that were determined to be VIEs. The Operating Partnership is required to consolidate its interest in these entities because it is deemed to be the primary beneficiary and has the power to direct the activities of these entities that most significantly affect economic performance and the obligation to absorb losses and rights to receive benefits that could potentially be significant to the entity. The assets of these consolidated VIEs may only be used to settle the obligations of the entities and such obligations are secured only by the assets of the entities and are non-recourse to the Operating Partnership or us. The table below summarizes the assets and liabilities of consolidated VIEs of the Operating Partnership.

	As of	
(Amounts in thousands)	June 30, 2017	December 31, 2016
Real estate, net	\$1,258,156	\$1,336,810
Cash and restricted cash	41,587	17,054
Investment in unconsolidated joint venture	15,881	-
Preferred equity investments	55,300	55,051
Accounts and other receivables	681	5,966



Edgar Filing: Paramount Group, Inc. - Form 10-Q

Deferred rent receivable	40,821	32,103
Deferred charges, net	7,737	695
Intangible assets, net	45,803	52,139
Other assets	952	14,474
Total VIE assets	\$1,466,918	\$1,514,292
Notes and mortgages payable, net	\$968,089	\$872,960
Accounts payable and other accrued expenses	16,082	21,077
Intangible liabilities, net	42,645	48,654
Interest rate swap liabilities	-	21,227
Other liabilities	122	6,555
Total VIE liabilities	\$1,026,938	\$970,473

Unconsolidated VIEs

As of June 30, 2017, the Operating Partnership held variable interests in entities that own certain real estate funds that were deemed to be VIEs. The table below summarizes our investments in these unconsolidated real estate funds.

(Amounts in thousands)	As of June 30, 2017		
	Investment	Asset Management Fees and Other Receivables	Maximum Risk of Loss
Unconsolidated real estate funds	\$22,001	\$ 1,524	\$ 23,525

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 13. Fair Value Measurements

ASC Topic 820, Fair Value Measurement and Disclosures, defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value. Considerable judgment is necessary to interpret Level 2 and 3 inputs in determining the fair value of our financial and non-financial assets and liabilities. Accordingly, our fair value estimates, which are made at the end of each reporting period, may be different than the amounts that may ultimately be realized upon sale or disposition of these assets or settlement of these liabilities.

## Financial Assets and Liabilities Measured at Fair Value

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of marketable securities (which represent the assets in our deferred compensation plan, for which there is a corresponding liability on our consolidated balance sheets) and interest rate swaps. The table below aggregates the fair values of these financial assets and liabilities as of June 30, 2017 and December 31, 2016, based on their levels in the fair value hierarchy.

(Amounts in thousands)	As of June 30, 2017			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$21,564	\$21,564	\$-	\$-
Interest rate swap assets (included in "other assets")	730	-	730	-

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Total assets	\$22,294	\$21,564	\$730	\$ -
Interest rate swap liabilities	\$1,819	\$-	\$1,819	\$ -
Total liabilities	\$1,819	\$-	\$1,819	\$ -

As of December 31, 2016

(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Marketable securities	\$22,393	\$22,393	\$-	\$ -
Interest rate swap assets (included in "other assets")	139	-	139	-
Total assets	\$22,532	\$22,393	\$139	\$ -
Interest rate swap liabilities	\$22,446	\$-	\$22,446	\$ -
Total liabilities	\$22,446	\$-	\$22,446	\$ -

### Interest Rate Swaps

Interest rate swaps are valued by a third-party specialist. The valuation of these interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the interest rate swaps and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are 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. Interest rate swaps are classified as Level 2.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Financial Assets and Liabilities Not Measured at Fair Value

Financial assets not measured at fair value on our consolidated balance sheets consists of preferred equity investments. Estimates of the fair value of these investments are determined by the standard practice of modeling the contractual cash flows required under the investment and discounting it back to its present value at the appropriate current risk adjusted interest rate. The preferred equity investments are classified as Level 3. Financial liabilities not measured at fair value include notes and mortgages payable and the revolving credit facility. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash payments we would be required to make under the instrument. These instruments would be classified as Level 2.

The following is a summary of the carrying amounts and fair value of these financial instruments as of June 30, 2017 and December 31, 2016.

(Amounts in thousands)	As of June 30, 2017		As of December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred equity investments	\$55,300	\$55,614	\$55,051	\$55,300
Total assets	\$55,300	\$55,614	\$55,051	\$55,300

(Amounts in thousands)	As of June 30, 2017		As of December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and mortgages payable	\$3,355,100	\$3,347,070	\$3,408,179	\$3,371,262
Revolving credit facility	-	-	230,000	230,018
Total liabilities	\$3,355,100	\$3,347,070	\$3,638,179	\$3,601,280



## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 14. Fee and Other Income

The following table sets forth the details of our fee and other income.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Fee income				
Property management	\$1,532	\$1,539	\$3,142	\$3,060
Asset management	2,359	1,783	4,625	3,497
Acquisition and disposition	250	590	5,570	590
Other	307	263	667	445
Total fee income	4,448	4,175	14,004	7,592
Lease termination income	895	93	961	11,048 <sup>(1)</sup>
Other income <sup>(2)</sup>	2,318	2,520	5,690	9,025
Total fee and other income	\$7,661	\$6,788	\$20,655	\$27,665

<sup>(1)</sup>Includes \$10,861 from the termination of a lease with a tenant at 1633 Broadway.

<sup>(2)</sup>Primarily comprised of income from tenant requested services, including overtime heating and cooling.

## 15. Interest and Other Income, net

The following table sets forth the details of interest and other income.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Preferred equity investment income <sup>(1)</sup>	\$953	\$1,423	\$2,366	\$2,839
Interest and other income	511	350	596	430
Mark-to-market of investments in our deferred compensation plans <sup>(2)</sup>	1,022	(743 )	2,724	(539 )
Total interest and other income, net	\$2,486	\$1,030	\$5,686	\$2,730

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$232 and \$347 for the three months ended June 30, 2017 and 2016, respectively, and \$576 and \$692 for the six months ended June 30, 2017 and 2016, respectively. See Note 6, Preferred Equity Investments.

<sup>(2)</sup>The change resulting from the mark-to-market of the deferred compensation plan assets is entirely offset by the change in the deferred compensation plan liabilities, which is included in “general and administrative” expenses.

## 16. Interest and Debt Expense

The following table sets forth the details of interest and debt expense.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest expense	\$31,999	\$36,604	\$66,287	\$72,465
Amortization of deferred financing costs	2,818	1,405	5,548	2,663
Total interest and debt expense	\$34,817	\$38,009	\$71,835	\$75,128

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

17. Incentive Compensation

Stock-Based Compensation

We account for all stock-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation. As of June 30, 2017, we have 10,363,815 shares available for future grants under the 2014 Equity Incentive Plan (“Plan”), if all awards granted are full value awards, as defined in the Plan. Stock-based compensation expense was \$4,438,000 and \$2,556,000 for the three months ended June 30, 2017 and 2016, respectively, and \$7,867,000 and \$6,183,000 for the six months ended June 30, 2017 and 2016, respectively. Stock-based compensation expense for the six months ended June 30, 2016 includes \$1,855,000 of expense related to the acceleration of vesting of stock awards in connection with a separation agreement.

2017 Performance Program

On January 30, 2017, the Compensation Committee approved the 2017 Performance Program, a multiyear performance-based long-term equity (“LTE”) compensation program. The purpose of the 2017 Performance Program is to further align the interests of our stockholders with that of management by encouraging our senior officers to create stockholder value in a “pay for performance” structure. Under the 2017 Performance Program, participants may earn awards in the form of Long Term Incentive Plan (“LTIP”) units of our Operating Partnership based on our Total Shareholder Return (“TSR”) over a three-year performance measurement period beginning on January 1, 2017 and continuing through December 31, 2019, on both an absolute basis and relative basis. 25.0% of the award is earned if we outperform a predetermined absolute TSR and the remaining 75.0% is earned if we outperform a predetermined relative TSR. Specifically, participants begin to earn awards under the 2017 Performance Program if our TSR for the performance measurement period equals or exceeds 18.0% on an absolute basis and is in the 30th percentile of the performance of the SNL Office REIT Index constituents on a relative basis, and awards will be fully earned if our TSR for the performance measurement period equals or exceeds 30.0% on an absolute basis and exceeds the 80<sup>th</sup> percentile of the performance of the SNL Office REIT Index constituents on a relative basis. Participants will not earn any awards under the 2017 Performance Program if our TSR during the performance measurement period does not meet either of these minimum thresholds. The number of LTIP units that are earned if performance is above the minimum thresholds, but below the maximum thresholds, will be determined based on linear interpolation between the percentages earned at the minimum and maximum thresholds. During the performance measurement period,



participants will receive per unit distributions equal to one-tenth of the per share dividends otherwise payable to our common stockholders with respect to their LTIP units. If the LTIP units are ultimately earned based on the achievement of the designated performance objectives, participants will receive cash or additional LTIP units based on the additional amount the participants would have received if per unit distributions during the performance measurement periods for the earned LTIP units had equaled per share dividends paid to our common stockholders less the amount of distributions participants actually received during the performance measurement period.

If the designated performance objectives are achieved, awards earned under the 2017 Performance Program will also be subject to vesting based on continued employment with us through December 31, 2020, with 50.0% of each award vesting following the conclusion of the performance measurement period, and the remaining 50.0% vesting on December 31, 2020. The Company's named executive officers, as defined, are required to hold earned awards for an additional one-year following vesting. The fair value of the awards granted under the 2017 Performance Program on the date of the grant was \$10,520,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 18. Earnings Per Share

The following table provides a summary of net income (loss) and the number of common shares used in the computation of basic and diluted income (loss) per common share, which includes the weighted average number of common shares outstanding and the effect of dilutive potential common shares, if any.

(Amounts in thousands, except per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income (loss) attributable to common stockholders	\$ 103,016	\$ 3,188	\$ 103,388	\$(3,306 )
Earnings allocated to unvested participating securities	(59 )	(10 )	(73 )	(19 )
Numerator for income (loss) per common share - basic				
and diluted	\$ 102,957	\$ 3,178	\$ 103,315	\$(3,325 )
Denominator:				
Denominator for basic income (loss) per common share -				
weighted average shares	234,990	217,122	232,969	214,763
Effect of dilutive employee stock options and				
restricted share awards <sup>(1)</sup>	20	16	27	-
Denominator for diluted income (loss) per common				
share - weighted average shares	235,010	217,138	232,996	214,763
Income (loss) per common share - basic and diluted	\$0.44	\$0.01	\$0.44	\$(0.02 )

<sup>(1)</sup>The effect of dilutive securities for the three months ended June 30, 2017 and 2016 excludes 32,317 and 49,182 weighted average share equivalents, respectively, and 34,147 and 51,252 weighted average share equivalents for the six months ended June 30, 2017 and 2016, respectively, as their effect was anti-dilutive.



PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

19. Related Party

Due to Affiliates

As of June 30, 2017 and December 31, 2016, we had an aggregate of \$27,299,000 of liabilities that were due to affiliates. These liabilities were comprised of a \$24,500,000 note payable to CNBB-RDF Holdings, LP, which is an entity partially owned by Katharina Otto-Bernstein (a member of our Board of Directors), and a \$2,799,000 note payable to a different entity owned by members of the Otto Family, both of which were made in lieu of certain cash distributions prior to the completion of our initial public offering. The notes are due in October 2017 and bear interest at a fixed rate of 0.50%. We recognized interest expense of \$35,000 for each of the three months ended June 30, 2017 and 2016, and \$69,000 for each of the six months ended June 30, 2017 and 2016 in connection with these notes.

Management Agreements

We provide property management, leasing and other related services to certain properties owned by members of the Otto Family. We recognized an aggregate of \$210,000 and \$191,000 for the three months ended June 30, 2017 and 2016, respectively, and \$412,000 and \$399,000, respectively, of fee income, in connection with these agreements, which is included as a component of “fee and other income” on our consolidated statements of income. As of June 30, 2017, amounts owed to us under these agreements aggregated \$17,000, which are included as a component of “accounts and other receivables, net” on our consolidated balance sheet.

We also provide property management, asset management, leasing and other related services to our unconsolidated joint ventures and real estate funds. For the three months ended June 30, 2017 and 2016, we recognized \$3,369,000 and \$2,359,000, respectively, and for the six months ended June 30, 2017 and 2016, we recognized \$11,775,000 and \$4,599,000, respectively, of fee income in connection with these agreements. As of June 30, 2017, amounts owed to us under these agreements aggregated \$2,529,000, which are included as a component of “accounts and other receivables, net” on our consolidated balance sheet.

#### Hamburg Trust Consulting GMBH (“HTC”)

We have an agreement with HTC, a licensed broker in Germany, to supervise selling efforts for our private equity real estate funds (or investments in feeder vehicles for these funds) to investors in Germany, including distribution of securitized notes of a feeder vehicle for Fund VIII. Pursuant to this agreement, we have agreed to pay HTC for the costs incurred to sell investments in this feeder vehicle, which primarily consist of commissions paid to third party agents, and other incremental costs incurred by HTC as a result of the engagement, plus, in each case, a mark-up of 10%. HTC is 100% owned by Albert Behler, our Chairman, Chief Executive Officer and President. For the three months ended June 30, 2017 and 2016, we incurred \$134,000 and \$454,000 of expense, respectively, and \$170,000 and \$557,000, respectively, for the six months ended in June 30, 2017 and 2016, in connection with these agreements, which is included as a component of “transaction related costs” on our consolidated statements of income. As of June 30, 2017, we owed \$170,000 to HTC under this agreement, which is included as a component of “accounts payable and other accrued expenses” on our consolidated balance sheet.

#### Mannheim Trust

Dr. Martin Bussmann (a member of our Board of Directors) is also a trustee and a director of Mannheim Trust, a subsidiary of which leases office space at 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture. The Mannheim Trust is for the benefit of Dr. Bussmann’s children. Prior to December 5, 2016, the Mannheim Trust leased 6,790 square feet. On December 5, 2016, the joint venture entered into a new lease agreement for 5,593 square feet, which became effective in January 2017. The new lease expires in April 2023. For the three months ended June 30, 2017 and 2016, we recognized \$84,000 and \$102,000, respectively, and \$178,000 and \$204,000 for the six months ended June 30, 2017 and 2016, respectively, for our share of rental income from this lease.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 20. Commitments and Contingencies

### Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils such as floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

### Other Commitments and Contingencies

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time, including claims arising specifically from the formation transactions, in connection with our initial public offering, may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. Should any litigation arise in connection with the formation transactions, we would contest it vigorously. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of June 30, 2017, we believe we are in compliance with all of our covenants.

#### 718 Fifth Avenue - Put Right

Prior to the formation transactions, an affiliate of our Predecessor owned a 25.0% interest in 718 Fifth Avenue, a five-story building containing 19,050 square feet of prime retail space that is located on the southwest corner of 56th Street and Fifth Avenue in New York, (based on its 50.0% interest in a joint venture that held a 50.0% tenancy-in-common interest in the property). Prior to the completion of the formation transactions, this interest was sold to its partner in the 718 Fifth Avenue joint venture, who is also our partner in the joint venture that owns 712 Fifth Avenue, New York, New York. In connection with this sale, we granted our joint venture partner a put right, pursuant to which the 712 Fifth Avenue joint venture would be required to purchase the entire direct or indirect interests held by our joint venture partner or its affiliates in 718 Fifth Avenue at a purchase price equal to the fair market value of such interests. The put right may be exercised at any time after September 10, 2018 with 12 months written notice and the actual purchase occurring no earlier than September 10, 2019. If the put right is exercised and the 712 Fifth Avenue joint venture acquires the 50.0% tenancy-in-common interest in the property that will be held by our joint venture partner following the sale of its interest to our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 21. Segments Disclosure

Our reportable segments are separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. Our determination of segments is aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker, makes key operating decisions, evaluates financial results and manages our business.

The following tables provide NOI for each reportable segment for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$173,256	\$106,602	\$18,138	\$48,201	\$315
Property-related operating expenses	(63,461)	(43,289)	(6,565)	(11,120)	(2,487)
NOI from unconsolidated joint ventures	4,958	4,838	-	-	120
NOI <sup>(1)</sup>	\$114,753	\$68,151	\$11,573	\$37,081	\$(2,052)

(Amounts in thousands)	For the Three Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$168,128	\$114,351	\$21,478	\$31,702	\$597
Property-related operating expenses	(59,994)	(42,543)	(8,094)	(7,259)	(2,098)
NOI from unconsolidated joint ventures	4,536	4,456	-	-	80
NOI <sup>(1)</sup>	\$112,670	\$76,264	\$13,384	\$24,443	\$(1,421)

(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$344,936	\$211,926	\$41,925	\$90,140	\$945
Property-related operating expenses	(129,432)	(88,048)	(15,489)	(21,725)	(4,170)
NOI from unconsolidated joint ventures	9,781	9,591	-	-	190
NOI <sup>(1)</sup>	\$225,285	\$133,469	\$26,436	\$68,415	\$(3,035)



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$337,629	\$233,654	\$ 41,460	\$ 61,321	\$ 1,194
Property-related operating expenses	(122,939)	(86,680)	(16,369)	(14,432)	(5,458)
NOI from unconsolidated joint ventures	8,964	8,803	-	-	161
NOI <sup>(1)</sup>	\$223,654	\$ 155,777	\$ 25,091	\$ 46,889	\$(4,103)

<sup>(1)</sup>Net Operating Income (“NOI”) is used to measure the operating performance of our properties. NOI consists of property-related revenue (which includes rental income, tenant reimbursement income and certain other income) less operating expenses (which includes building expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We use NOI internally as a performance measure and believe it provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Other real estate companies may use different methodologies for calculating NOI, and accordingly, our presentation of NOI may not be comparable to other real estate companies.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table provides a reconciliation of NOI to net income (loss) attributable to common stockholders for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
NOI	\$ 114,753	\$ 112,670	\$ 225,285	\$ 223,654
Add (subtract) adjustments to arrive to net income:				
Fee income	4,448	4,175	14,004	7,592
Depreciation and amortization expense	(68,636 )	(67,287 )	(131,628 )	(142,099 )
General and administrative expenses	(16,573 )	(12,139 )	(30,154 )	(26,100 )
Transaction related costs	(502 )	(508 )	(777 )	(1,443 )
NOI from unconsolidated joint ventures	(4,958 )	(4,536 )	(9,781 )	(8,964 )
Income from unconsolidated joint ventures	16,535	2,003	18,472	3,499
Loss from unconsolidated real estate funds	(2,411 )	(960 )	(2,123 )	(1,286 )
Interest and other income, net	2,486	1,030	5,686	2,730
Interest and debt expense	(34,817 )	(38,009 )	(71,835 )	(75,128 )
Debt breakage costs	(5,162 )	-	(7,877 )	-
Gain on sale of real estate	133,989	-	133,989	-
Unrealized gain on interest rate swaps	-	10,073	1,802	16,933
Net income (loss) before income taxes	139,152	6,512	145,063	(612 )
Income tax (expense) benefit	(970 )	1,398	(5,252 )	1,035
Net income	138,182	7,910	139,811	423
Less: net (income) loss attributable to				
noncontrolling interests in:				
Consolidated joint ventures	(1,897 )	(4,107 )	(3,188 )	(5,359 )
Consolidated real estate fund	(20,169 )	78	(20,081 )	752
Operating Partnership	(13,100 )	(693 )	(13,154 )	878
Net income (loss) attributable to common stockholders	\$ 103,016	\$ 3,188	\$ 103,388	\$ (3,306 )

The following table provides the selected balance sheet data for each of our reportable segments as of June 30, 2017.

(Amounts in thousands)	As of June 30, 2017		
	Balance Sheet Data:	Total	New York

Edgar Filing: Paramount Group, Inc. - Form 10-Q

			Washington, D.C.	San Francisco	
Total assets	\$8,517,503	\$5,545,701	\$ 706,534	\$1,918,142	\$347,126
Total liabilities	3,631,592	2,444,141	26,877	1,041,494	119,080
Total equity	4,885,911	3,101,560	679,657	876,648	228,046

## 22. Subsequent Events

Prior to July 17, 2017, we owned a 7.2% interest in two unconsolidated real estate funds that owned 42.8% of 50 Beale Street, a 661,000 square foot Class A office building in San Francisco, California (“50 Beale”). The remaining 57.2% was owned by third party investors. Accordingly, our economic interest in 50 Beale was 3.1%. On July 17, 2017, the two real estate funds and the third party investors sold an aggregate of 62.2% of the interest in 50 Beale. In connection therewith, we acquired, through a series of transactions, a direct 13.2% interest in the property and a new joint venture, in which we have a 36.6% ownership interest, acquired the remaining 49.0% interest. Accordingly, our economic interest in the property, increased to 31.1%. The transactions valued the property at \$517,500,000 and include the assumption of \$228,000,000 of existing debt that matures in October 2021 and bears interest at a fixed rate of 3.65%.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements, including the related notes included therein.

### Forward-Looking Statements

We make statements in this Quarterly Report on Form 10-Q that are considered "forward-looking statements" within the meaning of 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, which are usually identified by the use of words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "seeks," "should," "will," and such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- unfavorable market and economic conditions in the United States and globally and in New York City, Washington, D.C. and San Francisco;
- risks associated with our high concentrations of properties in New York City, Washington, D.C. and San Francisco;
- risks associated with ownership of real estate;
- decreased rental rates or increased vacancy rates;
- the risk we may lose a major tenant;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments;
- intense competition in the real estate market that may limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities;
- insufficient amounts of insurance;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- risks associated with actual or threatened terrorist attacks;
- exposure to liability relating to environmental and health and safety matters;
- high costs associated with compliance with the Americans with Disabilities Act;
- failure of acquisitions to yield anticipated results;
- risks associated with real estate activity through our joint ventures and private equity real estate funds;
- general volatility of the capital and credit markets and the market price of our common stock;
- exposure to litigation or other claims;
- loss of key personnel;
- risks associated with security breaches through cyber attacks or cyber intrusions and other significant disruptions of our information technology (IT) networks and related systems;

- risks associated with our substantial indebtedness;
- failure to refinance current or future indebtedness on favorable terms, or at all;
- failure to meet the restrictive covenants and requirements in our existing debt agreements;

30

---

- fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with variable rate debt, derivatives or hedging activity;
- risks associated with future sales of our common stock by our continuing investors or the perception that our continuing investors intend to sell substantially all of the shares of our common stock that they hold;
- risks associated with the market for our common stock;
- failure to qualify as a real estate investment trust (“REIT”);
- compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
- any of the other risks included in this Quarterly Report on Form 10-Q or in our Annual Report on Form 10-K for the year ended December 31, 2016, including those set forth in Item 1A entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our consolidated financial statements and the notes thereto, as well as Item 1A entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

#### Critical Accounting Policies

There are no material changes to our critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

#### Recently Issued Accounting Literature

A summary of our recently issued accounting literature and their potential impact on our consolidated financial statements, if any, are included in Note 2, Basis of Presentation and Significant Accounting Policies, to our consolidated financial statements in this Quarterly Report on Form 10-Q.



## Business Overview

We are a fully-integrated REIT focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. We conduct our business through, and substantially all of our interests are held by, Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). We are the sole general partner of, and owned approximately 89.9% of the Operating Partnership as of June 30, 2017.

## Acquisitions

On January 24, 2017, a joint venture, in which we have a 5.0% ownership interest, acquired 60 Wall Street, a 1.6 million square foot office tower in Manhattan, for \$1.04 billion. In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property.

Prior to July 17, 2017, we owned a 7.2% interest in two unconsolidated real estate funds that owned 42.8% of 50 Beale Street, a 661,000 square foot Class A office building in San Francisco, California (“50 Beale”). The remaining 57.2% was owned by third party investors. Accordingly, our economic interest in 50 Beale was 3.1%. On July 17, 2017, the two real estate funds and the third party investors sold an aggregate of 62.2% of the interest in 50 Beale. In connection therewith, we acquired, through a series of transactions, a direct 13.2% interest in the property and a new joint venture, in which we have a 36.6% ownership interest, acquired the remaining 49.0% interest. Accordingly, our economic interest in the property, increased to 31.1%. The transactions valued the property at \$517,500,000 and include the assumption of \$228,000,000 of existing debt that matures in October 2021 and bears interest at a fixed rate of 3.65%.

## Dispositions

On May 3, 2017, we completed the sale of Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia for \$460,000,000 and recognized a net gain of \$110,583,000.

Prior to May 5, 2017, our consolidated Residential Development Fund (“RDF”), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) in San Francisco, California. On



May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net gain on sale, of which our share, net of income taxes, was \$1,661,000. Subsequent to the sale, RDF deconsolidated its investment in 75 Howard and began accounting for the remaining 20.0% under the equity method of accounting, however, we continue to consolidate our interest in RDF. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

## Financings

On January 19, 2017, we completed a \$975,000,000 refinancing of One Market Plaza, a 1.6 million square foot Class A office and retail property in San Francisco, California. The new seven-year interest-only loan matures in February 2024 and has a fixed rate of 4.03%. We retained \$23,470,000 for our 49.0% share of net proceeds, after the repayment of the existing loan, closing costs and required reserves.

On May 3, 2017, we used the net proceeds from the Waterview sale to repay the \$200,000,000 outstanding under our revolving credit facility, the \$87,179,000 loan on 1899 Pennsylvania Avenue, and the \$84,000,000 loan on Liberty Place.

On June 13, 2017, we completed a \$300,000,000 refinancing of 712 Fifth Avenue, a 543,386 square foot Class A office and retail building located in the Plaza District of New York. The new 10-year interest-only loan matures in July 2027 and has a fixed rate of 3.39%. The net proceeds from the refinancing were used to repay the existing \$246,500,000 loan bearing interest at 4.41% and was scheduled to mature in March 2018. We received \$20,000,000 for our 50.0% share of net proceeds, after the repayment of the existing loan, closing costs and required reserves.

Leasing Results - Three Months Ended June 30, 2017

In the three months ended June 30, 2017, we leased 292,238 square feet, of which our share was 223,273 square feet that was leased at a weighted average initial rent of \$84.70 per square foot. This leasing activity, partially offset by lease expirations during the three months, increased portfolio wide leased occupancy by 10 basis points to 90.9% at June 30, 2017 from 90.8% at March 31, 2017. Same store leased occupancy increased by 70 basis points to 90.9% at June 30, 2017 from 90.2% at March 31, 2017. Of the 292,238 square feet leased in the three months, 211,873 square feet represents our share of second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 7.5% on a GAAP basis and 19.8% on a cash basis. The weighted average lease term for leases signed during the three months was 7.5 years and weighted average tenant improvements and leasing commissions on these leases were \$10.42 per square foot per annum, or 12.3% of initial rent.

New York:

In the three months ended June 30, 2017, we leased 125,723 square feet in our New York portfolio, of which our share was 112,505 square feet that was leased, at a weighted average initial rent of \$86.35 per square foot. This leasing activity, partially offset by lease expirations during the three months, increased leased occupancy and same store leased occupancy by 40 basis points to 88.9% at June 30, 2017 from 88.5% at March 31, 2017. Of the 125,723 square feet leased in the three months, 108,641 square feet represents our share of second generation space for which rental rates decreased by 5.4% on a GAAP basis and 4.6% on a cash basis. The weighted average lease term for leases signed during the three months was 6.7 years and weighted average tenant improvements and leasing commissions on these leases were \$11.87 per square foot per annum, or 13.7% of initial rent.

Washington, D.C.:

In the three months ended June 30, 2017, we leased 7,536 square feet of previously vacant space in our Washington, D.C. portfolio, at a weighted average initial rent of \$74.94 per square foot. Notwithstanding this leasing activity, leased occupancy decreased by 120 basis points to 94.6% at June 30, 2017 from 95.8% at March 31, 2017. This decrease was due to the sale of Waterview (a 98.7% leased asset) in May 2017. Excluding Waterview, same store leased occupancy increased by 80 basis points to 94.6% at June 30, 2017 from 93.8% at March 31, 2017. The weighted average lease term for leases signed during the three months was 10.6 years and weighted average tenant improvements and leasing commissions on these leases were \$10.83 per square foot per annum, or 14.4% of initial rent.

San Francisco:

In the three months ended June 30, 2017, we leased 158,979 square feet in our San Francisco portfolio, of which our share was 103,232 square feet that was leased at a weighted average initial rent of \$83.97 per square foot. This leasing activity, partially offset by lease expirations during the three months, increased leased occupancy and same store leased occupancy by 230 basis points to 98.2% as of June 30, 2017 from 95.9% at March 31, 2017. All of the space leased in the three months represents second generation space for which we achieved rental rate increases of 21.4% on GAAP basis and 55.7% on a cash basis. The weighted average lease term for leases signed during the year was 8.0 years and weighted average tenant improvements and leasing commissions on these leases were \$9.31 per square foot per annum, or 11.1% of initial rent.

The following is a tabular disclosure of leasing statistics for leases signed during the three months ended June 30, 2017. It is not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Three Months Ended June 30, 2017	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	292,238	125,723	7,536	158,979
Pro rata share of total square feet leased:	223,273	112,505	7,536	103,232
Initial rent <sup>(1)</sup>	\$84.70	\$86.35	\$74.94	\$83.97
Weighted average lease term (in years)	7.5	6.7	10.6	8.0
Tenant improvements and leasing commissions:				
Per square foot	\$78.32	\$79.99	\$114.42	\$74.22
Per square foot per annum	\$10.42	\$11.87	\$10.83	\$9.31
Percentage of initial rent	12.3	% 13.7	% 14.4	% 11.1
Rent concessions:				
Average free rent period (in months)	6.5	8.3	14.2	4.3
Average free rent period per annum (in months)	0.9	1.2	1.3	0.5
Second generation space: <sup>(2)</sup>				

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Square feet	211,873	108,641	-	103,232
GAAP basis:				
Straight-line rent	\$82.90	\$81.07	\$-	\$84.50
Prior straight-line rent	\$77.11	\$85.67	\$-	\$69.62
Percentage increase (decrease)	7.5 %	(5.4 %)	-	21.4 %
Cash basis:				
Initial rent <sup>(1)</sup>	\$85.08	\$86.35	\$-	\$83.97
Prior escalated rent <sup>(3)</sup>	\$71.00	\$90.51	\$-	\$53.94
Percentage increase (decrease)	19.8 %	(4.6 %)	-	55.7 %

<sup>(1)</sup>Represents the weighted average cash basis starting rent per square foot and does not include free rent of periodic step-ups in rent.

<sup>(2)</sup>Represents space leased that has been vacant for less than twelve months.

<sup>(3)</sup>Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

Leasing Results - Six Months Ended June 30, 2017

In the six months ended June 30, 2017, we leased 577,744 square feet, of which our share was 503,019 square feet that was leased at a weighted average initial rent of \$76.60 per square foot. This leasing activity, offset by lease expirations during the six months, decreased portfolio wide leased occupancy by 180 basis points to 90.9% at June 30, 2017 from 92.7% at December 31, 2016. Same store leased occupancy decreased by 150 basis points to 90.8% from 92.3% at December 31, 2016. The decrease in leased occupancy was driven by lease expirations in our New York and San Francisco portfolios. Of the 577,744 square feet leased in the six months, 431,120 square feet represents our share of second generation space for which we achieved rental rate increases of 12.2% on a GAAP basis and 19.2% on a cash basis. The weighted average lease term for leases signed during the six months was 8.3 years and weighted average tenant improvements and leasing commissions on these leases were \$8.69 per square foot per annum, or 11.3% of initial rent.

New York:

In the six months ended June 30, 2017, we leased 219,027 square feet in our New York portfolio, of which our share was 204,233 square feet that was leased at a weighted average initial rent of \$77.41 per square foot. This leasing activity, offset by lease expirations during the six months, decreased leased occupancy by 180 basis points to 88.9% at June 30, 2017 from 90.7% at December 31, 2016. Same store leased occupancy decreased by 190 basis points to 88.8% from 90.7% at December 31, 2016. Of the 219,027 square feet leased in the six months, 148,623 square feet represents our share of second generation space for which rental rates decreased by 1.5% on a GAAP basis and 2.1% on a cash basis. The weighted average lease term for leases signed during the six months was 8.5 years and weighted average tenant improvements and leasing commissions on these leases were \$10.01 per square foot per annum, or 12.9% of initial rent.

Washington, D.C.:

In the six months ended June 30, 2017, we leased 12,532 square feet of previously vacant space in our Washington, D.C. portfolio, at a weighted average initial rent of \$68.93 per square foot. Notwithstanding this leasing activity, leased occupancy decreased by 90 basis points to 94.6% at June 30, 2017 from 95.5% at December 31, 2016. This decrease was due to the sale of Waterview (a 98.7% leased asset) in May 2017. Excluding Waterview, same store leased occupancy increased by 130 basis points to 94.6% from 93.3% at December 31, 2016. The weighted average lease term for leases signed during the six months was 9.9 years and weighted average tenant improvements and

leasing commissions on these leases were \$8.81 per square foot per annum, or 12.8% of initial rent.

San Francisco:

In the six months ended June 30, 2017, we leased 346,185 square feet in our San Francisco portfolio, of which our share was 286,254 square feet that was leased at a weighted average initial rent of \$76.41 per square foot. This leasing activity, offset by lease expirations during the six months, decreased leased occupancy and same store leased occupancy by 80 basis points to 98.2% at June 30, 2017 from 99.0% at December 31, 2016. Of the 346,185 square feet leased during the year, 282,497 square feet represents our share of second generation space for which we achieved rental rate increases of 20.4% on GAAP basis and 33.8% on a cash basis. The weighted average lease term for leases signed during the year was 8.1 years and weighted average tenant improvements and leasing commissions on these leases were \$7.75 per square foot per annum, or 10.1% of initial rent.

Edgar Filing: Paramount Group, Inc. - Form 10-Q

The following is a tabular disclosure of leasing statistics for leases signed during the six months ended June 30, 2017. It is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Six Months Ended June 30, 2017	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	577,744	219,027	12,532	346,185
Pro rata share of total square feet leased:	503,019	204,233	12,532	286,254
Initial rent <sup>(1)</sup>	\$76.60	\$77.41	\$68.93	\$76.41
Weighted average lease term (in years)	8.3	8.5	9.9	8.1
Tenant improvements and leasing commissions:				
Per square foot	\$72.05	\$85.06	\$87.19	\$62.58
Per square foot per annum	\$8.69	\$10.01	\$8.81	\$7.75
Percentage of initial rent	11.3 %	12.9 %	12.8 %	10.1 %
Rent concessions:				
Average free rent period (in months)	4.9	7.3	10.4	3.1
Average free rent period per annum (in months)	0.6	0.9	1.1	0.4
Second generation space: <sup>(2)</sup>				
Square feet	431,120	148,623	-	282,497
GAAP basis:	\$74.27	\$75.14	\$-	\$73.84



Edgar Filing: Paramount Group, Inc. - Form 10-Q

Straight-line rent							
Prior straight-line rent							
	\$66.19		\$76.27		\$-		\$61.33
Percentage increase							
(decrease)	12.2	%	(1.5	%)	-		20.4
Cash basis:							
Initial rent							
(1)	\$77.43		\$79.56		\$-		\$76.41
Prior escalated rent (3)							
	\$64.97		\$81.29		\$-		\$57.09
Percentage increase							
(decrease)	19.2	%	(2.1	%)	-		33.8

(1) Represents the weighted average cash basis starting rent per square foot and does not include free rent of periodic step-ups in rent.

(2) Represents space leased that has been vacant for less than twelve months.

(3) Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

## Financial Results - Three Months Ended June 30, 2017 and 2016

## Net Income, FFO and Core FFO

Net income attributable to common stockholders was \$103,016,000, or \$0.44 per diluted share, for the three months ended June 30, 2017, compared to \$3,188,000, or \$0.01 per diluted share, for the three months ended June 30, 2016. Funds from Operations (“FFO”) attributable to common stockholders was \$62,318,000, or \$0.27 per diluted share, for the three months ended June 30, 2017, compared to \$54,243,000, or \$0.25 per diluted share, for the three months ended June 30, 2016. FFO attributable to common stockholders for the three months ended June 30, 2017 and 2016 includes the impact of non-core items, which are listed in the table on page 59. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the three months ended June 30, 2017 and 2016 by \$7,753,000 and \$4,121,000, or \$0.04 and \$0.02 per diluted share, respectively. Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of the non-core items listed on page 59, was \$54,565,000 and \$50,122,000, or \$0.23 and \$0.23 per diluted share, for the three months ended June 30, 2017 and 2016, respectively.

See page 59 “Non-GAAP Financial Measures – FFO and Core FFO” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

## Same Store NOI

The table below summarizes the percentage increase (decrease) in our share of Same Store NOI and Same Store Cash NOI, by segment, for the three months ended June 30, 2017 versus June 30, 2016.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	(3.9 %)	(7.0 %)	24.0 %	(0.6 %)
Same Store Cash NOI	14.4 %	11.2 %	53.6 %	7.0 %

See page 52 “Non-GAAP Financial Measures – NOI” and page 56 “Non-GAAP Financial Measures – Same Store NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

## Financial Results - Six Months Ended June 30, 2017 and 2016

## Net Income, FFO and Core FFO

Net income attributable to common stockholders was \$103,388,000, or \$0.44 per diluted share, for the six months ended June 30, 2017, compared to a net loss of \$3,306,000, or \$0.02 per diluted share, for the six months ended June 30, 2016. FFO attributable to common stockholders was \$113,907,000, or \$0.49 per diluted share, for the six months ended June 30, 2017, compared to \$103,491,000, or \$0.48 per diluted share, for the six months ended June 30, 2016. FFO attributable to common stockholders for the six months ended June 30, 2017 and 2016 includes the impact of non-core items, which are listed in the table on page 59. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the six months ended June 30, 2017 and 2016 by \$7,837,000 and \$4,178,000, or \$0.04 and \$0.02 per diluted share, respectively. Core FFO attributable to common stockholders, which excludes the impact of the non-core items listed on page 59, was \$106,070,000, or \$0.45 per diluted share, for the six months ended June 30, 2017, compared to \$99,313,000, or \$0.46 per diluted share, for the six months ended June 30, 2016.

See page 59 “Non-GAAP Financial Measures – FFO and Core FFO” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

## Same Store NOI

The table below summarizes the percentage increase (decrease) in our share of Same Store NOI and Same Store Cash NOI, by segment, for the six months ended June 30, 2017 versus June 30, 2016.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	(4.9 %)	(10.6 %)	25.6 %	2.5 %
Same Store Cash NOI	4.1 %	(1.4 %)	36.9 %	3.4 %

See page 52 “Non-GAAP Financial Measures – NOI” and page 56 “Non-GAAP Financial Measures – Same Store NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

## Results of Operations

The following pages summarize our consolidated results of operations for the three months ended June 30, 2017 and 2016.

	For the Three Months Ended June 30,		
(Amounts in thousands)	2017	2016	Change
<b>REVENUES:</b>			
Rental income	\$ 158,187	\$ 155,181	\$ 3,006
Tenant reimbursement income	11,856	10,334	1,522
Fee and other income	7,661	6,788	873
Total revenues	177,704	172,303	5,401
<b>EXPENSES:</b>			
Operating	63,461	59,994	3,467
Depreciation and amortization	68,636	67,287	1,349
General and administrative	16,573	12,139	4,434
Transaction related costs	502	508	(6 )
Total expenses	149,172	139,928	9,244
Operating income	28,532	32,375	(3,843 )
Income from unconsolidated joint ventures	16,535	2,003	14,532
Loss from unconsolidated real estate funds	(2,411 )	(960 )	(1,451 )
Interest and other income, net	2,486	1,030	1,456

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Interest and debt expense	(34,817 )	(38,009 )	3,192
Debt breakage costs	(5,162 )	-	(5,162 )
Gain on sale of real estate	133,989	-	133,989
Unrealized gain on interest rate swaps	-	10,073	(10,073 )
Net income before income taxes	139,152	6,512	132,640
Income tax (expense) benefit	(970 )	1,398	(2,368 )
Net income	138,182	7,910	130,272
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(1,897 )	(4,107 )	2,210
Consolidated real estate fund	(20,169 )	78	(20,247 )
Operating Partnership	(13,100 )	(693 )	(12,407 )
Net income attributable to common stockholders	\$ 103,016	\$ 3,188	\$ 99,828

## Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$177,704,000 for the three months ended June 30, 2017, compared to \$172,303,000 for the three months ended June 30, 2016, an increase of \$5,401,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Rental income</b>					
Acquisitions <sup>(1)</sup>	\$13,457	\$-	\$ -	\$ 13,457	\$-
Dispositions <sup>(2)</sup>	(5,312 )	-	(5,312 )	-	-
Same store operations	(1,394 )	(2,097)	873	239	(409)
Other, net	(3,745 )	(3,745) <sup>(3)</sup>	-	-	-
Increase (decrease) in rental income	\$3,006	\$ (5,842)	\$ (4,439 )	\$ 13,696	\$ (409)
<b>Tenant reimbursement income</b>					
Acquisitions <sup>(1)</sup>	\$1,901	\$-	\$ -	\$ 1,901	\$-
Dispositions <sup>(2)</sup>	(385 )	-	(385 )	-	-
Same store operations	6	(1,430)	1,425	11	-
Increase (decrease) in tenant reimbursement income	\$1,522	\$ (1,430)	\$ 1,040	\$ 1,912	\$-
<b>Fee and other income</b>					
Property management	\$(7 )	\$-	\$ -	\$ -	\$(7 )
Asset management	576	-	-	-	576
Acquisition and disposition	(340 )	-	-	-	(340)
Other	44	-	-	-	44



Edgar Filing: Paramount Group, Inc. - Form 10-Q

Increase in fee income	273	-	-	-	273
Acquisitions <sup>(1)</sup>	950	-	-	950	-
Dispositions <sup>(2)</sup>	(35 )	-	(35 )	-	-
Lease termination income	(64 )	1	-	(65 )	-
Other income	(251 )	(478 )	94	6	127
Increase (decrease) in other income	600	(477 )	59	891	127
Increase (decrease) in fee and other income	\$873	\$(477 )	\$ 59	\$ 891	\$400
Total increase (decrease) in revenues	\$5,401	\$(7,749)	\$ (3,340 )	\$ 16,499	\$(9 )

<sup>(1)</sup>Represents One Front Street, which was acquired in December 2016.

<sup>(2)</sup>Represents Waterview, which was sold in May 2017.

<sup>(3)</sup>Primarily due to \$3,915 income from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification for the three months ended June 30, 2016.

## Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$149,172,000 for the three months ended June 30, 2017, compared to \$139,928,000 for the three months ended June 30, 2016, an increase of \$9,244,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Operating</b>					
Acquisitions <sup>(1)</sup>	\$3,412	\$-	\$ -	\$ 3,412	\$-
Dispositions <sup>(2)</sup>	(1,681 )	-	(1,681 )	-	-
Same store operations	1,706	716	152	449	389
Bad debt expense	30	30	-	-	-
Increase (decrease) in operating	\$3,467	\$746	\$ (1,529 )	\$ 3,861	\$389
<b>Depreciation and amortization</b>					
Acquisitions <sup>(1)</sup>	\$13,262	\$-	\$ -	\$ 13,262	\$-
Dispositions <sup>(2)</sup>	(1,652 )	-	(1,652 )	-	-
Operations	(10,261)	(8,246) <sup>(3)</sup>	(884 )	(1,181 )	50
Increase (decrease) in depreciation and amortization	\$1,349	\$(8,246)	\$ (2,536 )	\$ 12,081	\$50
<b>General and administrative</b>					
Operations	\$787	\$-	\$ -	\$ -	\$787
Stock-based compensation	1,882	-	-	-	1,882
Mark-to-market of investments in our deferred compensation plan	1,765	-	-	-	1,765
Increase in general					<sup>(4)</sup>

Edgar Filing: Paramount Group, Inc. - Form 10-Q

and administrative	\$4,434	\$-	\$-	\$-	\$4,434
Decrease in transaction related costs	\$(6 )	\$-	\$-	\$-	\$(6 )
Total increase (decrease) in expenses	\$9,244	\$(7,500)	\$ (4,065 )	\$ 15,942	\$4,867

<sup>(1)</sup>Represents One Front Street, which was acquired in December 2016.

<sup>(2)</sup>Represents Waterview, which was sold in May 2017.

<sup>(3)</sup>Decrease primarily due to lower amortization of in-place lease assets due to the expiration of such leases and acceleration of amortization of tenant improvements and in-place lease assets in the three months ended June 30, 2016, in connection with a tenant's lease modification.

<sup>(4)</sup>Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in "interest and other income, net".

## Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$16,535,000 for the three months ended June 30, 2017, compared to \$2,003,000 for the three months ended June 30, 2016, an increase of \$14,532,000. This increase resulted from:

(Amounts in thousands)

712 Fifth Avenue (\$16,504 in 2017, compared to \$1,985 in 2016)	\$ 14,519	(1)
60 Wall Street (acquired in January 2017)	(31)	)
75 Howard (acquired in May 2017)	33	(2)
Oder-Center, Germany (\$29 in 2017, compared to \$18 in 2016)	11	
Total increase	\$14,532	

(1) On June 13, 2017, we completed a \$300,000 refinancing of the property. As of June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50% share of the net proceeds from the refinancing. In accordance with GAAP, because we have no further obligation to fund additional capital to the venture, we have accounted for the \$15,072 distribution in excess of our basis as income.

(2) Represents RDF's 20% share of income from the property, of which our 7.4% share is \$2.

## Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$2,411,000 for the three months ended June 30, 2017, compared to \$960,000 for the three months ended June 30, 2016, an increase in loss of \$1,451,000. This increase primarily resulted from a decrease in carried interest of \$4,068,000, partially offset by a decrease in unrealized loss of \$2,483,000.

## Interest and Other Income, net

Interest and other income was \$2,486,000 for the three months ended June 30, 2017, compared to \$1,030,000 for the three months ended June 30, 2016, an increase of \$1,456,000. This increase resulted from:

(Amounts in thousands)	
Increase in the value of investments in our deferred compensation plan (which is offset by an increase in general and administrative)	\$1,765
Decrease in preferred equity investment income (\$953 in 2017, compared to \$1,423 in 2016) <sup>(1)</sup>	(470 )
Other, net	161
Total increase	\$1,456

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$232 and \$347 for the three months ended June 30, 2017 and 2016, respectively.

#### Interest and Debt Expense

Interest and debt expense was \$34,817,000 for the three months ended June 30, 2017, compared to \$38,009,000 for the three months ended June 30, 2016, a decrease of \$3,192,000. This decrease resulted from:

(Amounts in thousands)	
\$445 million of debt repayments (\$274 million at 900 Third Avenue in October 2016 and \$171 million at 1899 Pennsylvania Avenue and Liberty Place in May 2017)	\$(4,271)
\$975 million refinancing of One Market Plaza in January 2017	(3,901)
\$210 million defeasance of Waterview in October 2016	(3,057)
\$850 million financing of 1301 Avenue of the Americas in October 2016	6,308
Amortization of deferred financing costs	1,413
Other, net (primarily related to revolving credit facility)	316
Total decrease	\$(3,192)

#### Debt Breakage Costs

In the three months ended June 30, 2017, we incurred \$5,162,000 of debt breakage costs in connection with the repayment of debt at 1899 Pennsylvania Avenue and Liberty Place.

#### Gain on Sale of Real Estate

In the three months ended June 30, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of a \$110,583,000 net gain on sale of Waterview in May 2017 and a \$23,406,000 net gain on sale of an 80.0% equity interest in 75 Howard.

#### Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$10,073,000 for the three months ended June 30, 2016 and was comprised of (i) \$7,984,000 of unrealized gains in 2016 relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017, (ii) \$1,329,000 of unrealized gains in 2016 relating to swaps aggregating \$162,000,000 on 900 Third Avenue that were settled upon the repayment in October 2016 and (iii) \$760,000 of unrealized gains in 2016 relating to swaps aggregating \$237,600,000 on 31 West 52nd Street that were settled upon the refinancing in May 2016.

#### Income Tax (Expense) Benefit

Income tax expense was \$970,000 for the three months ended June 30, 2017, compared to a benefit of \$1,398,000 for the three months ended June 30, 2016, an increase in expense of \$2,368,000. This increase was primarily due to \$1,838,000 of tax on the gain on the sale of an 80.0% equity interest in 75 Howard.

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$1,897,000 for the three months ended June 30, 2017, compared to \$4,107,000 for the three months ended June 30, 2016, a decrease of \$2,210,000. This decrease was primarily due to lower income subject to allocation to noncontrolling interests in One Market Plaza.

Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Real Estate Fund

Net income attributable to noncontrolling interests in consolidated real estate fund was \$20,169,000 for the three months ended June 30, 2017, compared to a loss of \$78,000 for the three months ended June 30, 2016, an increase in income attributable to the noncontrolling interests of \$20,247,000. This increase was primarily due to noncontrolling interests share of the gain on the sale of an 80.0% equity interest in 75 Howard.

Net Income Attributable to Noncontrolling Interests in Operating Partnership

Net income attributable to noncontrolling interests in Operating Partnership was \$13,100,000 for the three months ended June 30, 2017, compared to \$693,000 for the three months ended June 30, 2016, an increase of \$12,407,000. This increase resulted from higher income subject to allocation to the unitholders of the Operating Partnership for the three months ended June 30, 2017.

## Results of Operations

The following pages summarize our consolidated results of operations for the six months ended June 30, 2017 and 2016.

	For the Six Months Ended June 30,		
(Amounts in thousands)	2017	2016	Change
<b>REVENUES:</b>			
Rental income	\$313,577	\$296,433	\$17,144
Tenant reimbursement income	24,708	21,123	3,585
Fee and other income	20,655	27,665	(7,010 )
Total revenues	358,940	345,221	13,719
<b>EXPENSES:</b>			
Operating	129,432	122,939	6,493
Depreciation and amortization	131,628	142,099	(10,471 )
General and administrative	30,154	26,100	4,054
Transaction related costs	777	1,443	(666 )
Total expenses	291,991	292,581	(590 )
Operating income	66,949	52,640	14,309
Income from unconsolidated joint ventures	18,472	3,499	14,973
Loss from unconsolidated real estate funds	(2,123 )	(1,286 )	(837 )
Interest and other income, net	5,686	2,730	2,956
Interest and debt expense	(71,835 )	(75,128 )	3,293
	(7,877 )	-	(7,877 )



Debt breakage costs			
Gain on sale of real estate	133,989	-	133,989
Unrealized gain on interest rate swaps	1,802	16,933	(15,131)
Net income (loss) before income taxes	145,063	(612)	145,675
Income tax (expense) benefit	(5,252)	1,035	(6,287)
Net income	139,811	423	139,388
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(3,188)	(5,359)	2,171
Consolidated real estate fund	(20,081)	752	(20,833)
Operating Partnership	(13,154)	878	(14,032)
Net income (loss) attributable to common stockholders	\$ 103,388	\$(3,306)	\$ 106,694

## Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$358,940,000 for the six months ended June 30, 2017, compared to \$345,221,000 for the six months ended June 30, 2016, an increase of \$13,719,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Rental income</b>					
Acquisitions <sup>(1)</sup>	\$23,135	\$-	\$ -	\$ 23,135	\$-
Dispositions <sup>(2)</sup>	(5,312 )	-	(5,312 )	-	-
Same store operations	(3,246 )	(9,249 ) <sup>(3)</sup>	3,286	3,093	(376 )
Other, net	2,567	2,567 <sup>(4)</sup>	-	-	-
Increase (decrease) in rental income	\$17,144	\$(6,682 )	\$ (2,026 )	\$ 26,228	\$(376 )
<b>Tenant reimbursement income</b>					
Acquisitions <sup>(1)</sup>	\$2,883	\$-	\$ -	\$ 2,883	\$-
Dispositions <sup>(2)</sup>	(385 )	-	(385 )	-	-
Same store operations	1,087	(1,193 )	2,080	200	-
Increase (decrease) in tenant reimbursement income	\$3,585	\$(1,193 )	\$ 1,695	\$ 3,083	\$-
<b>Fee and other income</b>					
Property management	\$82	\$-	\$ -	\$ -	\$82
Asset management	1,128	-	-	-	1,128
Acquisition and disposition	4,980	-	-	-	4,980
Other	222	-	-	-	222
Increase in fee income	6,412	-	-	-	6,412
Acquisitions <sup>(1)</sup>	1,110	-	-	1,110	-

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Dispositions <sup>(2)</sup>	(35 )	-	(35 )	-	-
Lease termination income	(10,953)	(10,823) <sup>(5)</sup>	-	(130 )	-
Other income	(3,544 )	(3,030 )	831	(1,472 )	127
Decrease (increase) in other income	(13,422)	(13,853)	796	(492 )	127
(Decrease) increase in fee and other income	\$(7,010 )	\$(13,853)	\$ 796	\$ (492 )	\$6,539
Total increase (decrease) in revenues	\$13,719	\$(21,728)	\$ 465	\$ 28,819	\$6,163

<sup>(1)</sup>Represents One Front Street, which was acquired in December 2016.

<sup>(2)</sup>Represents Waterview, which was sold in May 2017.

<sup>(3)</sup>Primarily due to a decrease in occupancy.

<sup>(4)</sup>Primarily due to a \$9,834 of non-cash write-off, in the six months ended June 30, 2016, related to the termination of a tenant's above-market lease at 1633 Broadway, partially offset by \$7,830 of income, in the six months ended June 30, 2016, from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

<sup>(5)</sup>Decrease primarily due to \$10,861 of income for the six months ended June 30, 2016, in connection with a tenant's lease termination at 1633 Broadway.

## Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$291,991,000 for the six months ended June 30, 2017, compared to \$292,581,000 for the six months ended June 30, 2016, a decrease of \$590,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Operating</b>					
Acquisitions <sup>(1)</sup>	\$6,739	\$-	\$ -	\$ 6,739	\$-
Dispositions <sup>(2)</sup>	(1,681 )	-	(1,681 )	-	-
Same store operations	1,878	1,811	801	554	(1,288)
Bad debt expense	(443 )	(443 )	-	-	-
Increase (decrease) in operating	\$6,493	\$1,368	\$ (880 )	\$ 7,293	\$(1,288)
<b>Depreciation and amortization</b>					
Acquisitions <sup>(1)</sup>	\$19,738	\$-	\$ -	\$ 19,738	\$-
Dispositions <sup>(2)</sup>	(1,652 )	-	(1,652 )	-	-
Operations	(28,557)	(22,376) <sup>(3)</sup>	(3,345 )	(3,128 )	292
(Decrease) increase in depreciation and amortization	\$(10,471)	\$(22,376)	\$ (4,997 )	\$ 16,610	\$ 292
<b>General and administrative</b>					
Operations	\$126	\$-	\$ -	\$ -	\$126
Stock-based Compensation	3,539	-	-	-	3,539
Mark-to-market of investments in our deferred compensation plan	3,263	-	-	-	3,263
Severance costs	(2,874 )	-	-	-	(2,874) <sup>(5)</sup>
Increase in general					<sup>(4)</sup>

Edgar Filing: Paramount Group, Inc. - Form 10-Q

and administrative	\$4,054	\$-	\$ -	\$ -	\$4,054
Decrease in transaction related					
costs	\$(666 )	\$-	\$ -	\$ -	\$(666 )
Total (decrease) increase in					
expenses	\$(590 )	\$(21,008)	\$(5,877 )	\$23,903	\$2,392

<sup>(1)</sup>Represents One Front Street, which was acquired in December 2016.

<sup>(2)</sup>Represents Waterview, which was sold in May 2017.

<sup>(3)</sup>Decrease primarily due to lower amortization of in-place lease assets due to the expiration of such leases and acceleration of amortization of tenant improvements and in-place lease assets in the six months ended June 30, 2016, in connection with a tenant's lease modification.

<sup>(4)</sup>Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in "interest and other income, net".

<sup>(5)</sup>Represents severance costs in the six months ended June 30, 2016 in connection with a separation agreement.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$18,472,000 for the six months ended June 30, 2017, compared to \$3,499,000 for the six months ended June 30, 2016, an increase of \$14,973,000. This increase resulted from:

(Amounts in thousands)

712 Fifth Avenue (\$18,434 in 2017, compared to \$3,461 in 2016)	\$ 14,973 <sup>(1)</sup>
60 Wall Street (acquired in January 2017)	(36 )
75 Howard (acquired in May 2017)	33 <sup>(2)</sup>
Oder-Center, Germany (\$41 in 2017, compared to \$38 in 2016)	3
Total increase	\$ 14,973

<sup>(1)</sup>On June 13, 2017, we completed a \$300,000 refinancing of the property. As of June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50% share of the net proceeds from the refinancing. In accordance with GAAP, because we have no further obligation to fund additional capital to the venture, we have accounted for the \$15,072 distribution in excess of our basis as income.

<sup>(2)</sup>Represents RDF's 20% share of income from the property, of which our 7.4% share is \$2.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$2,123,000 for the six months ended June 30, 2017, compared to \$1,286,000 for the six months ended June 30, 2016, an increase in loss of \$837,000. This increase primarily resulted from a decrease in carried interest of \$4,092,000, partially offset by a decrease in unrealized loss of \$2,350,000.

Interest and Other Income, net

Interest and other income was \$5,686,000 for the six months ended June 30, 2017, compared to \$2,730,000 for the six months ended June 30, 2016, an increase of \$2,956,000. This increase resulted from:

(Amounts in thousands)

\$3,263

Increase in the value of investments in our deferred compensation plan (which is offset by an increase in general and administrative)		
Decrease in preferred equity investment income (\$2,366 in 2017, compared to \$2,839 in 2016) <sup>(1)</sup>	(473 )	
Other, net	166	
Total increase		\$2,956

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$576 and \$692 for the six months ended June 30, 2017 and 2016, respectively.

#### Interest and Debt Expense

Interest and debt expense was \$71,835,000 for the six months ended June 30, 2017, compared to \$75,128,000 for the six months ended June 30, 2016, a decrease of \$3,293,000. This decrease resulted from:

(Amounts in thousands)

\$445 million of debt repayments (\$274 million at 900 Third Avenue in October 2016 and \$171 million at 1899 Pennsylvania Avenue and Liberty Place in May 2017)	\$(7,229 )
\$975 million refinancing of One Market Plaza in January 2017	(7,102 )
\$210 million defeasance of Waterview in October 2016	(6,115 )
\$850 million financing of 1301 Avenue of the Americas in October 2016	12,586
Amortization of deferred financing costs	2,885
Other, net (primarily related to revolving credit facility)	1,682
Total decrease	\$(3,293 )

#### Debt Breakage Costs

In the six months ended June 30, 2017, we incurred \$7,877,000 of debt breakage costs in connection with the refinancing of One Market Plaza and repayment of debt at 1899 Pennsylvania Avenue and Liberty Place.

#### Gain on Sale of Real Estate

In the six months ended June 30, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of a \$110,583,000 net gain on sale of Waterview in May 2017 and a \$23,406,000 net gain on sale of an 80.0% equity interest in 75 Howard.

#### Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$1,802,000 for the six months ended June 30, 2017, compared to an unrealized gain of \$16,933,000 for the six months ended June 30, 2016, a decrease of \$15,131,000. This decrease was primarily due to (i) \$11,541,000 of lower unrealized gains in 2017 relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017, (ii) \$1,970,000 of unrealized gains in 2016 relating to swaps aggregating \$162,000,000 on 900 Third Avenue that were settled upon the repayment in October 2016 and (iii) \$1,620,000 of unrealized gains in 2016 relating to swaps aggregating \$237,600,000 on 31 West 52nd Street that were settled upon the refinancing in May 2016.

#### Income Tax (Expense) Benefit

Income tax expense was \$5,252,000 for the six months ended June 30, 2017, compared to a benefit of \$1,035,000 for the six months ended June 30, 2016, an increase in expense of \$6,287,000. This increase was primarily due to higher fee income on our taxable REIT subsidiaries and \$1,838,000 of tax on the gain on the sale of an 80.0% equity interest in 75 Howard.



Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$3,188,000 for the six months ended June 30, 2017, compared to \$5,359,000 for the six months ended June 30, 2016, a decrease of \$2,171,000. This decrease was primarily due to lower income subject to allocation to noncontrolling interests in One Market Plaza.

Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Real Estate Fund

Net income attributable to noncontrolling interests in consolidated real estate fund was \$20,081,000 for the six months ended June 30, 2017, compared to a loss of \$752,000 for the six months ended June 30, 2016, an increase in income attributable to the noncontrolling interests of \$20,833,000. This increase was primarily due to noncontrolling interests share of the gain on the sale of an 80.0% equity interest in 75 Howard.

Net Income Attributable to Noncontrolling Interests in Operating Partnership

Net income attributable to noncontrolling interests in Operating Partnership was \$13,154,000 for the six months ended June 30, 2017, compared to a loss of \$878,000 for the six months ended June 30, 2016, an increase in income attributable to noncontrolling interests of \$14,032,000. This increase resulted from higher income subject to allocation to the unitholders of the Operating Partnership for the six months ended June 30, 2017.

## Liquidity and Capital Resources

### Liquidity

Our primary sources of liquidity include existing cash balances, cash flow from operations and borrowings available under our revolving credit facility. We expect that these sources will provide adequate liquidity over the next 12 months for all anticipated needs, including scheduled principal and interest payments on our outstanding indebtedness, existing and anticipated capital improvements, the cost of securing new and renewal leases, dividends to stockholders and distributions to unitholders, and all other capital needs related to the operations of our business. We anticipate that our long-term needs including debt maturities and the acquisition of additional properties will be funded by operating cash flow, mortgage financings and/or re-financings, the issuance of long-term debt or equity and cash on hand.

Although we may be able to anticipate and plan for certain of our liquidity needs, unexpected increases in uses of cash that are beyond our control and which affect our financial condition and results of operations may arise, or our sources of liquidity may be fewer than, and the funds available from such sources may be less than, anticipated or required.

As of June 30, 2017, we had \$1.097 billion of liquidity comprised of \$254,763,000 of cash and cash equivalents, \$42,384,000 of restricted cash and \$800,000,000 of borrowing capacity under our revolving credit facility. As of June 30, 2017, our outstanding consolidated debt (including amounts outstanding under our revolving credit facility) aggregated \$3.355 billion. None of our debt matures until 2021. We may refinance our maturing debt when it comes due or refinance or repay it early depending on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

### Dividend Policy

On June 15, 2017, we declared a regular quarterly cash dividend of \$0.095 per share of common stock for the second quarter ending June 30, 2017, which was paid on July 14, 2017 to stockholders of record as of the close of business on June 30, 2017. This dividend policy, if continued, would require us to pay out approximately \$25,211,000 each quarter to common stockholders and unitholders.

### Off Balance Sheet Arrangements

As of June 30, 2017, our unconsolidated joint ventures had \$896,371,000 of outstanding indebtedness, of which our share was \$180,838,000. We do not guarantee the indebtedness of unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carveouts relating to specified covenants and representations; however, we may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans in order to enable the joint venture to repay this indebtedness upon maturity.

### Stock Repurchase Program

On August 1, 2017, our Board of Directors approved the repurchase of up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. The amount and the timing of repurchases, if any, will depend on a number of factors including the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

## Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils such as floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

## Other Commitments and Contingencies

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time, including claims arising specifically from the formation transactions, in connection with our initial public offering, may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. Should any litigation arise in connection with the formation transactions, we would contest it vigorously. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of June 30, 2017, we believe we are in compliance with all of our covenants.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe inflationary increases in expenses may be at least partially offset by the contractual rent increases and expense escalations described above. We do not believe inflation has had a material impact on our historical financial position or results of operations.

## Cash Flows

Cash and cash equivalents were \$254,763,000 and \$162,965,000 as of June 30, 2017 and December 31, 2016, respectively, an increase \$91,798,000. The following table sets forth the changes in cash flow.

	For the Six Months Ended June 30,	
(Amounts in thousands)	2017	2016
Net cash provided by (used in):		
Operating activities	\$81,992	\$131,976
Investing activities	476,113	(61,328 )
Financing activities	(466,307)	17,944

## Operating Activities

Six months ended June 30, 2017 – We generated \$81,992,000 of cash from operating activities for the six months ended June 30, 2017, primarily from (i) \$94,969,000 of net income (before \$89,147,000 of noncash adjustments and \$133,989,000 of gain on sale of real estate) and (ii) \$2,904,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$15,881,000 of net changes in operating assets and liabilities. Noncash adjustments of \$89,147,000 were primarily comprised of depreciation and amortization, income from unconsolidated joint ventures and straight-lining of rental income. The changes in operating assets and liabilities were primarily due to additions to deferred charges.

Six months ended June 30, 2016 – We generated \$131,976,000 of cash from operating activities for the six months ended June 30, 2016, primarily from (i) \$85,468,000 of net income (before \$85,045,000 of noncash adjustments), (ii) \$41,444,000 of net changes in operating assets and liabilities and (iii) \$5,064,000 of distributions from unconsolidated joint ventures and real estate funds. Noncash adjustments of \$85,045,000 were primarily comprised of depreciation and amortization, straight-lining of rental income and unrealized gain on interest rate swaps. The net changes in operating assets and liabilities were primarily due to an increase in income taxes payable, partially offset by additions to deferred charges.

## Investing Activities

Six months ended June 30, 2017 – We generated \$476,113,000 of cash from investing activities for the six months ended June 30, 2017, primarily from (i) \$540,333,000 of proceeds from the sales of real estate and (ii) \$23,845,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$33,079,000 for additions to real estate, which was comprised of spending for tenant improvements and other building improvements, (iv) \$28,791,000 for the investments in unconsolidated joint ventures, (v) \$12,697,000 increase in restricted cash and (vi) \$12,914,000 deposit on real estate.

Six months ended June 30, 2016 – We used \$61,328,000 of cash for investing activities for the six months ended June 30, 2016, primarily due to (i) \$73,840,000 for additions to real estate, which was comprised of spending for tenant improvements and other building improvements, partially offset by (ii) \$12,512,000 of decrease in restricted cash.

## Financing Activities

Six months ended June 30, 2017 – We used \$466,307,000 of cash for financing activities for the six months ended June 30, 2017, primarily due to (i) \$1,044,821,000 for repayments of notes and mortgages payable and \$7,877,000 for debt breakage costs, primarily for the repayments of One Market Plaza, 1899 Pennsylvania Avenue and Liberty Place loans, (ii) \$290,000,000 for repayments of the amounts borrowed under the revolving credit facility, (iii) \$107,162,000 for distributions to noncontrolling interests, (iv) 50,358,000 for dividends and distributions paid to common stockholders and unitholders, (v) \$19,425,000 for the settlement of swap liabilities, and (vi) \$7,344,000 for the payment of debt issuance costs, primarily offset by (vii) \$991,556,000 of proceeds from notes and mortgages payable, primarily from the refinancing of One Market Plaza, (viii) \$60,000,000 of borrowings under the revolving credit facility and (ix) \$9,278,000 of contributions from noncontrolling interests.

Six months ended June 30, 2016 – We generated \$17,944,000 of cash from financing activities for the six months ended June 30, 2016, primarily from (i) \$506,627,000 of proceeds from notes and mortgages payable, primarily from the refinancing of 31 West 52nd Street and (ii) \$60,000,000 of borrowings under the revolving credit facility, partially offset by (iii) \$414,202,000 for repayments of notes and mortgages payable, primarily for the repayment of 31 West 52nd Street loan, (iv) \$60,000,000 for repayments of the amounts borrowed under the revolving credit facility, (v) \$50,214,000 for dividends and distributions paid to common stockholders and unitholders, (vi) \$16,040,000 for the settlement of swap liabilities and (vii) \$6,487,000 for the payment of debt issuance costs.

## Non-GAAP Financial Measures

We use and present NOI, Cash NOI, FFO and Core FFO, as supplemental measures of our performance. The summary below describes our use of these measures, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income or loss, the most directly comparable GAAP measure.

## NOI

We use NOI to measure the operating performance of our properties. NOI consists of property-related revenue (which includes rental income, tenant reimbursement income and certain other income) less operating expenses (which includes building expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We also present Cash NOI, which deducts from NOI, straight-line rent adjustments and the amortization of above and below-market leases, including our share of such adjustments of unconsolidated joint ventures. In addition, we present our share of NOI and Cash NOI, which represents our share of NOI and Cash NOI of consolidated and unconsolidated joint ventures, based on our percentage ownership in the underlying assets. We use these metrics internally as performance measures and believe they provide useful information to investors regarding our financial condition and results of operations because they reflect only those income and expense items that are incurred at the property level. Other real estate companies may use different methodologies for calculating NOI and Cash NOI, and accordingly, our presentation of NOI and Cash NOI may not be comparable to other real estate companies.

The following tables present reconciliations of net income (loss) to NOI and Cash NOI for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income to NOI and Cash NOI:					
Net income	\$ 138,182	\$ 19,561	\$ 110,959	\$ 2,197	\$ 5,465
Add (subtract) adjustments to arrive at NOI					
and Cash NOI:					
Depreciation and amortization	68,636	38,063	5,333	24,729	511
General and administrative	16,573	-	-	-	16,573
Interest and debt expense	34,817	22,191	713	10,194	1,719
Debt breakage costs	5,162	-	5,162	-	-
Transaction related costs	502	-	-	-	502
Income tax expense	970	-	-	3	967



Edgar Filing: Paramount Group, Inc. - Form 10-Q

NOI from unconsolidated joint ventures	4,958	4,838	-	-	120
Income from unconsolidated joint ventures	(16,535 )	(16,473 )	-	-	(62 )
Loss from unconsolidated real estate funds	2,411	-	-	-	2,411
Fee income	(4,448 )	-	-	-	(4,448 )
Interest and other income, net	(2,486 )	(29 )	(11 )	(42 )	(2,404 )
Gain on sale of real estate	(133,989 )	-	(110,583 )	-	(23,406 )
NOI	114,753	68,151	11,573	37,081	(2,052 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(12,200 )	-	-	(12,200 )	-
Consolidated real estate fund	(345 )	-	-	-	(345 )
Paramount's share of NOI	\$ 102,208	\$ 68,151	\$ 11,573	\$ 24,881	\$(2,397 )
NOI	\$ 114,753	\$ 68,151	\$ 11,573	\$ 37,081	\$(2,052 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(12,208 )	(7,545 )	(333 )	(4,302 )	(28 )
Amortization of above and below-market leases,					
net (including our share of unconsolidated					
joint ventures)	(7,818 )	817	(550 )	(8,085 )	-
Cash NOI	94,727	61,423	10,690	24,694	(2,080 )
Less Cash NOI attributable to noncontrolling					
interests in:					
Consolidated joint ventures	(8,946 )	-	-	(8,946 )	-
Consolidated real estate fund	(345 )	-	-	-	(345 )
Paramount's share of Cash NOI	\$ 85,436	\$ 61,423	\$ 10,690	\$ 15,748	\$(2,425 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Three Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$7,910	\$12,028	\$ 2,218	\$ 5,947	\$(12,283)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	67,287	46,309	7,869	12,648	461
General and administrative	12,139	-	-	-	12,139
Interest and debt expense	38,009	17,614	5,129	13,836	1,430
Transaction related costs	508	-	-	-	508
Income tax expense (benefit)	(1,398 )	-	(1,820 )	5	417
NOI from unconsolidated joint ventures	4,536	4,456	-	-	80
Income from unconsolidated joint ventures	(2,003 )	(1,985 )	-	-	(18 )
Loss from unconsolidated real estate funds	960	-	-	-	960
Fee income	(4,175 )	-	-	-	(4,175 )
Interest and other income, net	(1,030 )	(69 )	(12 )	(9 )	(940 )
Unrealized gain on interest rate swaps	(10,073 )	(2,089 )	-	(7,984 )	-
NOI	112,670	76,264	13,384	24,443	(1,421 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(12,348 )	-	-	(12,348 )	-
Consolidated real estate fund	(147 )	-	-	-	(147 )
Paramount's share of NOI	\$100,175	\$76,264	\$ 13,384	\$ 12,095	\$(1,568 )
NOI	\$112,670	\$76,264	\$ 13,384	\$ 24,443	\$(1,421 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(24,764 )	(19,281 )	(1,792 )	(3,663 )	(28 )
Amortization of above and below-market leases, net	(7,100 )	(2,481 )	(553 )	(4,066 )	-
Cash NOI	80,806	54,502	11,039	16,714	(1,449 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(8,406 )	-	-	(8,406 )	-
Consolidated real estate fund	(147 )	-	-	-	(147 )
Paramount's share of Cash NOI	\$72,253	\$54,502	\$ 11,039	\$ 8,308	\$(1,596 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$ 139,811	\$ 21,051	\$ 118,539	\$ 3,828	\$ (3,607 )
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	131,628	77,094	10,614	42,778	1,142
General and administrative	30,154	-	-	-	30,154
Interest and debt expense	71,835	44,192	2,724	20,957	3,962
Debt breakage costs	7,877	-	5,162	2,715	-
Transaction related costs	777	-	-	-	777
Income tax expense	5,252	-	-	8	5,244
NOI from unconsolidated joint ventures	9,781	9,591	-	-	190
Income from unconsolidated joint ventures	(18,472 )	(18,398 )	-	-	(74 )
Loss from unconsolidated real estate funds	2,123	-	-	-	2,123
Fee income	(14,004 )	-	-	-	(14,004 )
Interest and other income, net	(5,686 )	(61 )	(20 )	(69 )	(5,536 )
Gain on sale of real estate	(133,989 )	-	(110,583 )	-	(23,406 )
Unrealized gain on interest rate swaps	(1,802 )	-	-	(1,802 )	-
NOI	225,285	133,469	26,436	68,415	(3,035 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(24,229 )	-	-	(24,229 )	-
Consolidated real estate fund	(486 )	-	-	-	(486 )
Paramount's share of NOI	\$ 200,570	\$ 133,469	\$ 26,436	\$ 44,186	\$ (3,521 )
NOI	\$ 225,285	\$ 133,469	\$ 26,436	\$ 68,415	\$ (3,035 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(32,719 )	(21,513 )	(1,396 )	(9,843 )	33
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(10,699 )	2,957	(1,097 )	(12,559 )	-
Cash NOI	181,867	114,913	23,943	46,013	(3,002 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(16,828 )	-	-	(16,828 )	-
Consolidated real estate fund	(486 )	-	-	-	(486 )
Paramount's share of Cash NOI	\$ 164,553	\$ 114,913	\$ 23,943	\$ 29,185	\$ (3,488 )



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$423	\$20,117	\$ 1,785	\$ 6,417	\$(27,896)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	142,099	99,470	15,611	26,168	850
General and administrative	26,100	-	-	-	26,100
Interest and debt expense	75,128	34,556	10,262	27,629	2,681
Transaction related costs	1,443	-	-	-	1,443
Income tax (benefit) expense	(1,035 )	-	(2,536 )	33	1,468
NOI from unconsolidated joint ventures	8,964	8,803	-	-	161
Income from unconsolidated joint ventures	(3,499 )	(3,461 )	-	-	(38 )
Loss from unconsolidated real estate funds	1,286	-	-	-	1,286
Fee income	(7,592 )	-	-	-	(7,592 )
Interest and other income, net	(2,730 )	(118 )	(31 )	(15 )	(2,566 )
Unrealized gain on interest rate swaps	(16,933 )	(3,590 )	-	(13,343 )	-
NOI	223,654	155,777	25,091	46,889	(4,103 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(23,617 )	-	-	(23,617 )	-
Consolidated real estate fund	303	-	-	-	303
Paramount's share of NOI	\$200,340	\$155,777	\$ 25,091	\$ 23,272	\$(3,800 )
NOI	\$223,654	\$155,777	\$ 25,091	\$ 46,889	\$(4,103 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(44,734 )	(35,969 )	(2,414 )	(6,382 )	31
Amortization of above and below-market leases, net	(3,481 )	5,688	(1,106 )	(8,063 )	-
Cash NOI	175,439	125,496	21,571	32,444	(4,072 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(16,250 )	-	-	(16,250 )	-
Consolidated real estate fund	303	-	-	-	303
Paramount's share of Cash NOI	\$159,492	\$125,496	\$ 21,571	\$ 16,194	\$(3,769 )

## Same Store NOI

The tables below set forth the reconciliations of our share of NOI to Same Store NOI and Same Store Cash NOI for the three and six months ended June 30, 2017 and 2016. These metrics are used to measure the operating performance of our properties that were owned by us in a similar manner during both the current and prior reporting periods, and represents our share of Same Store NOI and Same Store Cash NOI from consolidated and unconsolidated joint ventures based on our percentage ownership in the underlying assets. Same Store Cash NOI excludes the effect of non-cash items such as the straight-lining of rental revenue and the amortization of above and below-market leases.

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended June 30, 2017	\$102,208	\$68,151	\$ 11,573	\$ 24,881	\$(2,397)
Acquisitions <sup>(1)</sup>	(12,026 )	(694 )	-	(11,332 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,041 )	(175 )	-	(866 )	-
Other, net	(785 )	30	-	(698 )	(117 )
Paramount's share of Same Store NOI for the three months ended June 30, 2017	\$88,356	\$67,312	\$ 11,573	\$ 11,985	\$(2,514)
(Amounts in thousands)	For the Three Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended June 30, 2016	\$100,175	\$76,264	\$ 13,384	\$ 12,095	\$(1,568)
Acquisitions	-	-	-	-	-
Dispositions <sup>(2)</sup>	(4,051 )	-	(4,051 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(138 )	(106 )	-	(32 )	-
Other, net	(4,046 )	(3,745 ) <sup>(3)</sup>	-	-	(301 )
Paramount's share of Same Store NOI for the three months ended June 30, 2016	\$91,940	\$72,413	\$ 9,333	\$ 12,063	\$(1,869)
(Decrease) increase in Same Store NOI	\$(3,584 )	\$(5,101 )	\$ 2,240	\$(78 )	\$(645 )
% (Decrease) increase	(3.9 %)	(7.0 %)	24.0 %	(0.6 %)	

(1)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Represents our share of NOI attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street, in San Francisco, which was acquired in December 2016.

<sup>(2)</sup>Represents our share of NOI attributable to Waterview, which was sold in May 2017.

<sup>(3)</sup>Includes \$3,915 of income from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended June 30, 2017	\$85,436	\$61,423	\$ 10,690	\$ 15,748	\$(2,425)
Acquisitions <sup>(1)</sup>	(6,827 )	(804 )	-	(6,023 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,041 )	(175 )	-	(866 )	-
Other, net	(87 )	30	-	-	(117 )
Paramount's share of Same Store Cash NOI for the three months ended June 30, 2017	\$77,481	\$60,474	\$ 10,690	\$ 8,859	\$(2,542)
(Amounts in thousands)	For the Three Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended June 30, 2016	\$72,253	\$54,502	\$ 11,039	\$ 8,308	\$(1,596)
Acquisitions	-	-	-	-	-
Dispositions <sup>(2)</sup>	(4,081 )	-	(4,081 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(138 )	(106 )	-	(32 )	-
Other, net	(301 )	-	-	-	(301 )
Paramount's share of Same Store Cash NOI for the three months ended June 30, 2016	\$67,733	\$54,396	\$ 6,958	\$ 8,276	\$(1,897)
Increase (decrease) in Same Store Cash NOI	\$9,748	\$6,078	\$ 3,732	\$ 583	\$(645 )
% Increase (decrease)	14.4 %	11.2 %	53.6 %	7.0 %	%

<sup>(1)</sup>Represents our share of Cash NOI attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street, in San Francisco, which was acquired in December 2016.

<sup>(2)</sup>Represents our share of Cash NOI attributable to Waterview, which was sold in May 2017.



(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the six months ended June 30, 2017	\$200,570	\$133,469	\$26,436	\$44,186	\$(3,521)
Acquisitions <sup>(1)</sup>	(20,065)	(1,240)	-	(18,825)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,107)	(241)	-	(866)	-
Other, net	(785)	30	-	(698)	(117)
Paramount's share of Same Store NOI for the six months ended June 30, 2017	\$178,613	\$132,018	\$26,436	\$23,797	\$(3,638)
(Amounts in thousands)	For the Six Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the six months ended June 30, 2016	\$200,340	\$155,777	\$25,091	\$23,272	\$(3,800)
Acquisitions	-	-	-	-	-
Dispositions <sup>(2)</sup>	(4,051)	-	(4,051)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(11,138)	(11,074)	<sup>(3)</sup> -	(64)	-
Other, net	2,739	3,040	<sup>(4)</sup> -	-	(301)
Paramount's share of Same Store NOI for the six months ended June 30, 2016	\$187,890	\$147,743	\$21,040	\$23,208	\$(4,101)
(Decrease) increase in Same Store NOI	\$(9,277)	\$(15,725)	\$5,396	\$589	\$463
% (Decrease) increase	(4.9 %)	(10.6 %)	25.6 %	2.5 %	%

<sup>(1)</sup>Represents our share of NOI attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street, in San Francisco, which was acquired in December 2016.

<sup>(2)</sup>Represents our share of NOI attributable to Waterview, which was sold in May 2017.

<sup>(3)</sup>Includes \$10,861 from the termination of a tenant's lease at 1633 Broadway.

<sup>(4)</sup>Includes \$10,057 of non-cash write-off primarily related to an above-market lease asset from the termination of a tenant's lease at 1633 Broadway, partially offset by \$7,830 of income from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the six months ended June 30, 2017	\$ 164,553	\$ 114,913	\$ 23,943	\$ 29,185	\$(3,488)
Acquisitions <sup>(1)</sup>	(13,051 )	(1,418 )	-	(11,633 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,107 )	(241 )	-	(866 )	-
Other, net	(87 )	30	-	-	(117 )
Paramount's share of Same Store Cash NOI for the six months ended June 30, 2017	\$ 150,308	\$ 113,284	\$ 23,943	\$ 16,686	\$(3,605)
(Amounts in thousands)	For the Six Months Ended June 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the six months ended June 30, 2016	\$ 159,492	\$ 125,496	\$ 21,571	\$ 16,194	\$(3,769)
Acquisitions	-	-	-	-	-
Dispositions <sup>(2)</sup>	(4,081 )	-	(4,081 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(11,138 )	(11,074 )	<sup>(3)</sup> -	(64 )	-
Other, net	172	473	-	-	(301 )
Paramount's share of Same Store Cash NOI for the six months ended June 30, 2016	\$ 144,445	\$ 114,895	\$ 17,490	\$ 16,130	\$(4,070)
Increase (decrease) in Same Store Cash NOI	\$ 5,863	\$(1,611 )	\$ 6,453	\$ 556	\$ 465
% Increase (decrease)	4.1	% (1.4 %)	36.9	% 3.4	%

<sup>(1)</sup>Represents our share of Cash NOI attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street, in San Francisco, which was acquired in December 2016.

<sup>(2)</sup>Represents our share of Cash NOI attributable to Waterview, which was sold in May 2017.

<sup>(3)</sup>Includes \$10,861 from the termination of a tenant's lease at 1633 Broadway.

#### FFO and Core FFO

FFO is a supplemental measure of our performance. We present FFO in accordance with the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, impairment losses on depreciable real estate

and depreciation and amortization expense from real estate assets, including our share of such adjustments of unconsolidated joint ventures. FFO is commonly used in the real estate industry to assist investors and analysts in comparing results of real estate companies because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. In addition, we present Core FFO as an alternative measure of our operating performance, which adjusts FFO for certain other items that we believe enhance the comparability of our FFO across periods. Core FFO, when applicable, excludes the impact of certain items, including, transaction related costs, realized and unrealized gain or losses on real estate fund investments, unrealized gains or losses on interest rate swaps, severance costs and defeasance and debt breakage costs, in order to reflect the Core FFO of our real estate portfolio and operations. In future periods, we may also exclude other items from Core FFO that we believe may help investors compare our results.

FFO and Core FFO are presented as supplemental financial measures and do not fully represent our operating performance. Other REITs may use different methodologies for calculating FFO and Core FFO or use other definitions of FFO and Core FFO and, accordingly, our presentation of these measures may not be comparable to other real estate companies. Neither FFO nor Core FFO is intended to be a measure of cash flow or liquidity. Please refer to our consolidated financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table presents a reconciliation of net income to FFO and Core FFO.

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Reconciliation of net income to FFO and Core FFO:				
Net income	\$138,182	\$7,910	\$139,811	\$423
Real estate depreciation and amortization (including our share of unconsolidated joint ventures)	70,660	68,843	135,500	145,194
Gain on sale of Waterview	(110,583 )	-	(110,583 )	-
FFO	98,259	76,753	164,728	145,617
Less FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	(7,740 )	(10,560 )	(14,935 )	(18,707 )
Consolidated real estate fund	(20,276 )	(144 )	(20,416 )	304
Operating Partnership	(7,925 )	(11,806 )	(15,470 )	(23,723 )
FFO attributable to common stockholders	\$62,318	\$54,243	\$113,907	\$103,491
Per diluted share	\$0.27	\$0.25	\$0.49	\$0.48
FFO	\$98,259	\$76,753	\$164,728	\$145,617

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Non-core items:				
After-tax net gain on sale of residential condominium				
land parcel	(21,568 )	-	(21,568 )	-
Distributions in excess of basis of 712 Fifth Avenue	(15,072 )	-	(15,072 )	-
Debt breakage costs	5,162	-	7,877	-
Realized and unrealized loss from				
unconsolidated real estate funds	2,482	892	2,247	1,139
Unrealized gain on interest rate swaps (including our share of unconsolidated joint ventures)	(364 )	(10,490 )	(2,750 )	(17,350 )
Transaction related costs	502	508	777	1,443
Severance costs	-	-	-	2,874
Core FFO	69,401	67,663	136,239	133,723
Less Core FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	(7,740 )	(6,488 )	(15,401 )	(11,902 )
Consolidated real estate fund	12	(144 )	(128 )	304
Operating Partnership	(7,108 )	(10,909 )	(14,640 )	(22,812 )
Core FFO attributable to common stockholders	\$54,565	\$50,122	\$106,070	\$99,313
Per diluted share	\$0.23	\$0.23	\$0.45	\$0.46
Reconciliation of weighted average shares outstanding:				
Weighted average shares outstanding	234,990,468	217,121,592	232,968,602	214,762,593
Effect of dilutive securities	20,362	15,965	27,220	-

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Denominator for FFO and Core FFO per diluted share	235,010,830	217,137,557	232,995,822	214,762,593
--	-------------	-------------	-------------	-------------

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Our primary market risk results from our indebtedness, which bears interest at both fixed and variable rates. We manage our market risk on variable rate debt by entering into swap agreements to fix the rate on all or a portion of the debt for varying periods through maturity. This in turn, reduces the risks of variability of cash flows created by variable rate debt and mitigates the risk of increases in interest rates. Our objective when undertaking such arrangements is to reduce our floating rate exposure and we do not enter into hedging arrangements for speculative purposes. Subject to maintaining our status as a REIT for Federal income tax purposes, we may utilize swap arrangements in the future.

The following table summarizes our consolidated debt, the weighted average interest rates and the fair value as of June 30, 2017.

Property (Amounts in thousands)	Rate	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
<b>Fixed Rate Debt:</b>									
1633 Broadway <sup>(1)</sup>	3.54%	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,000,000	\$1,000,000	\$1,001,563
1301 Avenue of the Americas	3.05%	-	-	-	-	500,000	-	500,000	488,026
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	485,876
One Market Plaza	4.03%	-	-	-	-	-	975,000	975,000	990,139
<b>Total Fixed Rate Debt</b>	<b>3.66%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$500,000</b>	<b>\$2,475,000</b>	<b>\$2,975,000</b>	<b>\$2,965,604</b>
<b>Variable Rate Debt:</b>									
1633 Broadway	2.80%	\$ -	\$ -	\$ -	\$ -	\$ -	\$30,100	\$30,100	\$30,047
1301 Avenue of the Americas	2.86%	-	-	-	-	350,000	-	350,000	351,419
Revolving Credit Facility	n/a	-	-	-	-	-	-	-	-
<b>Total Variable Rate Debt</b>	<b>2.86%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$350,000</b>	<b>\$30,100</b>	<b>\$380,100</b>	<b>\$381,466</b>
<b>Total Consolidated Debt</b>	<b>3.57%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$850,000</b>	<b>\$2,505,100</b>	<b>\$3,355,100</b>	<b>\$3,347,070</b>

<sup>(1)</sup>This debt has been swapped from floating rate debt to fixed rate debt. See table below.

In addition to the above, our unconsolidated joint ventures had \$896,371,000 of outstanding indebtedness as of June 30, 2017, of which our share was \$180,838,000.

The following table summarized our fixed rate debt that has been swapped from floating rate to fixed as of June 30, 2017.

	Notional			Strike	Fair Value as of June 30, 2017
Property	Amount	Effective Date	Maturity Date	Rate	
(Amounts in thousands)					
1633 Broadway <sup>(1)</sup>	\$400,000	Dec-2015	Dec-2020	1.65 %	\$730
Total interest rate swap assets designated as cash flow hedges (included in "other assets")					\$730
1633 Broadway <sup>(1)</sup>	\$300,000	Dec-2015	Dec-2022	1.95 %	\$993
1633 Broadway <sup>(1)</sup>	300,000	Dec-2015	Dec-2021	1.82 %	167
1633 Broadway <sup>(1)</sup>	400,000	Dec-2020	Dec-2021	2.35 %	659
Total interest rate swap liabilities designated as cash flow hedges					\$1,819

<sup>(1)</sup>Represents interest rate swaps designated as cash flow hedges. Changes in the fair value of these hedges are recognized in "other comprehensive income (loss)" (outside of earnings).



The following table summarizes our share of total indebtedness and the effect to interest expense of a 100 basis point increase in LIBOR.

(Amounts in thousands, except per share amount)	June 30, 2017			Effect of 1% Increase in Base Rates	December 31, 2016		
	Balance	Weighted Average Interest Rate			Balance	Weighted Average Interest Rate	
Paramount's share of consolidated debt:							
Variable rate	\$380,100	2.86	%	\$ 3,801	\$599,627	2.29	%
Fixed rate <sup>(1)</sup>	2,477,750	3.59	%	-	2,593,343	3.99	%
	\$2,857,850	3.49	%	\$ 3,801	\$3,192,970	3.67	%
Paramount's share of debt of non-consolidated entities							
(non-recourse):							
Variable rate	\$28,808	3.61	%	\$ 288	\$55,750	2.72	%
Fixed rate <sup>(1)</sup>	152,030	3.41	%	-	69,692	5.74	%
	\$180,838	3.44	%	\$ 288	\$125,442	4.40	%
Noncontrolling interests' in the Operating Partnership share of above				\$ (462 )			
Total change in annual net income				\$ 3,627			
Per diluted share				\$ 0.02			

<sup>(1)</sup>Our fixed rate debt includes floating rate debt that has been swapped to fixed. See table above.

## ITEM 4.CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and regulations. 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.

As of June 30, 2017, the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms.

### Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting in connection with the evaluation referenced above that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. As of June 30, 2017, we do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position, results of operations or cash flows.

### ITEM 1A. RISK FACTORS

Except to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations”), there were no material changes to the risk factors disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

#### Recent Sales of Unregistered Securities

None.

#### Recent Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index.

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 duly authorized.

Paramount Group, Inc.

Date: August 3, 2017 By: /s/ Wilbur Paes  
Wilbur Paes  
Executive Vice President, Chief Financial Officer and Treasurer

(duly authorized officer and principal financial and accounting officer)

EXHIBIT INDEX

Exhibit

Number Exhibit Description

- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\* XBRL Instance Document.
- 101.SCH\* XBRL Taxonomy Extension Schema.
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase.
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase.

---

\* Filed herewith.

\*\* Furnished herewith.