

Paramount Group, Inc.
Form 10-Q
May 05, 2016

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: March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of April 30, 2016, there were 213,036,508 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

ASSETS	March 31, 2016	December 31, 2015
Rental property, at cost		
Land	\$2,042,071	\$2,042,071
Buildings and improvements	5,630,764	5,610,046
	7,672,835	7,652,117
Accumulated depreciation and amortization	(283,379)	(243,089)
Rental property, net	7,389,456	7,409,028
Cash and cash equivalents	178,721	143,884
Restricted cash	42,253	41,823
Real estate fund investments	-	416,438
Investments in unconsolidated real estate funds	26,880	-
Investments in unconsolidated joint ventures	7,121	7,102
Preferred equity investments	54,304	53,941
Marketable securities	21,398	21,521
Deferred rent receivable	97,660	77,792
Accounts and other receivables, net of allowance of \$366 and \$365	12,092	10,844
Deferred charges, net of accumulated amortization of \$15,484 and \$14,204	77,254	74,991
Intangible assets, net of accumulated amortization of \$157,239 and \$143,987	464,227	511,207
Other assets	32,691	6,658
Total assets ⁽¹⁾	\$8,404,057	\$8,775,229
LIABILITIES AND EQUITY		
Notes and mortgages payable, net of deferred financing costs of \$18,192 and \$18,914	\$2,923,834	\$2,922,610
Revolving credit facility	40,000	20,000
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	-	45,662
Accounts payable and accrued expenses	154,680	102,730
Dividends and distributions payable	25,147	25,067
Deferred income taxes	1,819	2,533
Interest rate swap liabilities	116,943	93,936
Intangible liabilities, net of accumulated amortization of \$53,983 and \$41,931	167,069	179,741
Other liabilities	45,955	45,101
Total liabilities ⁽¹⁾	3,502,746	3,464,679

Commitments and contingencies

Paramount Group, Inc. equity:

Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 213,036,508 and 212,112,137 shares in 2016 and 2015, respectively	2,130	2,122
Additional paid-in-capital	3,818,344	3,802,858
Earnings less than distributions	(62,835)	(36,120)
Accumulated other comprehensive loss	(31,815)	(7,843)
Paramount Group, Inc. equity	3,725,824	3,761,017
Noncontrolling interests in:		
Consolidated real estate funds	62,935	414,637
Consolidated joint ventures	238,101	236,849
Operating Partnership (51,443,466 and 51,660,088 units outstanding)	874,451	898,047
Total equity	4,901,311	5,310,550
Total liabilities and equity	\$8,404,057	\$8,775,229

⁽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 80.5%. As of March 31, 2016, the assets and liabilities of the Operating Partnership include \$1,512,307 and \$1,001,764 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 11, Variable Interest Entities.

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended	
	March 31, 2016	2015
REVENUES:		
Rental income	\$ 141,252	\$ 143,243
Tenant reimbursement income	10,789	13,488
Fee and other income	20,877	4,495
Total revenues	172,918	161,226
EXPENSES:		
Operating	62,945	61,884
Depreciation and amortization	74,812	73,583
General and administrative	13,961	12,613
Acquisition and transaction related costs	935	1,139
Total expenses	152,653	149,219
Operating income	20,265	12,007
Income from real estate fund investments	-	5,221
Loss from unconsolidated real estate funds	(326)	-
Income from unconsolidated joint ventures	1,496	975
Interest and other income, net	1,700	854
Interest and debt expense	(37,119)	(41,888)
Unrealized gain on interest rate swaps	6,860	11,978
Net loss before income taxes	(7,124)	(10,853)
Income tax expense	(363)	(574)
Net loss	(7,487)	(11,427)
Less net (income) loss attributable to noncontrolling interests in:		
Consolidated real estate funds	674	(2,209)
Consolidated joint ventures	(1,252)	1,541
Operating Partnership	1,571	2,364
Net loss attributable to common stockholders	\$ (6,494)	\$ (9,731)
LOSS PER COMMON SHARE - BASIC:		
Loss per common share	\$ (0.03)	\$ (0.05)
Weighted average shares outstanding	212,403,593	212,106,718
LOSS PER COMMON SHARE - DILUTED:		
Loss per common share	\$ (0.03)	\$ (0.05)
Weighted average shares outstanding	212,403,593	212,106,718
DIVIDENDS PER COMMON SHARE	\$0.095	\$0.134

(1)

⁽¹⁾ Includes the \$0.039 cash dividend for the 38 day period following the completion of our initial public offering and related

formation transactions and ending on December 31, 2014.

See notes to consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31,	
	2016	2015
Net loss	\$(7,487)	\$(11,427)
Other comprehensive (loss) income:		
Change in value of interest rate swaps	(29,867)	-
Pro rata share of other comprehensive income of unconsolidated		
joint ventures	107	-
Comprehensive loss	(37,247)	(11,427)
Less comprehensive (income) loss attributable to noncontrolling interests in:		
Consolidated real estate funds	674	(2,209)
Consolidated joint ventures	(1,252)	1,541
Operating Partnership	7,359	2,364
Comprehensive loss attributable to common stockholders	\$(30,466)	\$(9,731)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands)	Common Shares			Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Loss	Noncontrolling Interests in			
	Shares	Amount	Additional Paid in Capital			Consolidated Real Estate Funds	Consolidated Joint Ventures	Consolidated Operating Partnership	Total Equity
Balance as of December 31, 2014	212,107	\$2,122	\$3,851,432	\$57,308	\$-	\$338,070	\$347,818	\$958,203	\$5,554,953
Net (loss) income	-	-	-	(9,731)	-	2,209	(1,541)	(2,364)	(11,427)
Dividends and distributions (\$0.134 per share and unit)	-	-	-	(28,422)	-	-	-	(6,903)	(35,325)
Contributions from noncontrolling interests in joint ventures and funds	-	-	-	-	-	(100)	2,530	-	2,430
Distributions to noncontrolling interests in joint ventures and funds	-	-	-	-	-	(2,772)	(716)	-	(3,488)
Adjustments to noncontrolling interests	-	-	(43,409)	-	-	-	-	43,409	-
Amortization of equity awards	-	-	581	-	-	-	-	2,454	3,035
Other	-	-	(411)	(97)	-	(322)	-	-	(830)
Balance as of March 31, 2015	212,107	\$2,122	\$3,808,193	\$19,058	\$-	\$337,085	\$348,091	\$994,799	\$5,509,348

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Balance as of December 31, 2015	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843)	\$414,637	\$236,849	\$898,047	\$5,310,550
Deconsolidation of real estate fund									
investments	-	-	-	-	-	(351,035)	-	-	(351,035)
Balance as of January 1, 2016	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843)	\$63,602	\$236,849	\$898,047	\$4,959,515
Net (loss) income	-	-	-	(6,494)	-	(674)	1,252	(1,571)	(7,487)
Common shares issued upon redemption of									
common units	830	8	14,419	-	-	-	-	(14,427)	-
Common shares and units issued under									
Omnibus share plan	95	-	-	-	-	-	-	-	-
Dividends and distributions (\$0.095 per share and unit)	-	-	-	(20,239)	-	-	-	(4,908)	(25,147)
Change in value of interest									
rate swaps	-	-	-	-	(24,058)	-	-	(5,809)	(29,867)
Pro rata share of other comprehensive									
income of unconsolidated joint ventures	-	-	-	-	86	-	-	21	107
Amortization of equity awards	-	-	747	-	-	-	-	3,098	3,845
Other	-	-	320	18	-	7	-	-	345
Balance as of March 31, 2016	213,037	\$2,130	\$3,818,344	\$(62,835)	\$(31,815)	\$62,935	\$238,101	\$874,451	\$4,901,311

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

For the Three
Months Ended
March 31,
2016 2015

(Amounts in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$(7,487)	\$(11,427)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	74,812	73,583
Amortization of deferred financing costs	1,258	584
Straight-lining of rental income	(19,869)	(15,994)
Amortization of above and below-market leases, net	3,619	(890)
Unrealized gain on interest rate swaps	(6,860)	(11,978)
Realized and unrealized losses (gains) on marketable securities	293	(672)
Realized and unrealized gains, net, on real estate fund investments	-	(873)
Income from unconsolidated joint ventures	(1,496)	(975)
Loss from unconsolidated real estate funds	326	-
Distributions of income from unconsolidated real estate funds	79	-
Distributions of income from unconsolidated joint ventures	1,576	353
Amortization of stock based compensation expense	3,627	3,035
Other non-cash adjustments	842	1,799
Changes in operating assets and liabilities:		
Real estate fund investments	-	(22)
Accounts and other receivables	(1,362)	(5,171)
Deferred charges	(3,617)	(5,545)
Other assets	(26,038)	(19,657)
Accounts payable and accrued expenses	62,019	(8,928)
Deferred income taxes	(714)	322
Other liabilities	1,023	1,792
Net cash provided by (used in) operating activities	82,031	(664)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of, and additions to, rental properties	(33,193)	(21,636)
Changes in restricted cash	(600)	1,309
Distributions of capital from unconsolidated joint ventures	8	1
Net cash used in investing activities	(33,785)	(20,326)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	40,000	-
Repayment of revolving credit facility	(20,000)	-
Contributions from noncontrolling interests	-	2,430
Dividends paid to common stockholders and unitholders	(25,068)	(35,325)
Distributions to noncontrolling interests	-	(3,488)
Repayment of notes and mortgages payable	(354)	(337)
Net cash used in financing activities	(5,422)	(36,720)
Net increase (decrease) in cash and cash equivalents	42,824	(57,710)
Cash and cash equivalents at beginning of period	143,884	438,599
Decrease in cash due to deconsolidation of real estate fund investments	(7,987)	-
Cash and cash equivalents at end of period	\$ 178,721	\$ 380,889
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 34,083	\$ 37,186
Cash payments for income taxes, net of refunds	\$ 417	\$ 32
NON-CASH TRANSACTIONS:		
(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)	-
Dividends and distributions declared but not yet paid	25,147	-
Change in value of interest rate swaps	29,867	-
Common shares issued upon redemption of common units	14,427	-
Additions to real estate included in accounts payable and accrued expenses	11,064	2,904