OFFICE DEPOT INC
Form 10-K
February 22, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 25, 2010

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 1-10948

Office Depot, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**59-2663954** (I.R.S. Employer Identification No.)
6600 North Military Trail, Boca Raton, Florida (Address of principal executive offices)	**33496** (Zip Code)

(561) 438-4800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a 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 Act). Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 26, 2010 (based on the closing market price on the Composite Tape on June 25, 2010) was approximately $1,254,039,687 (determined by subtracting from the number of shares outstanding on that date the number of shares held by affiliates of Office Depot, Inc.).

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At January 22, 2011, there were 277,167,364 outstanding shares of Office Depot, Inc. Common Stock, $0.01 par value.

Documents Incorporated by Reference:

Certain information required for Part III of this Annual Report on Form 10-K is incorporated by reference to the Office Depot, Inc. definitive Proxy Statement for its 2010 Annual Meeting of Shareholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Act of 1934, as amended, within 120 days of Office Depot, Inc. s fiscal year end.

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PART I

Item 1. Business.

Office Depot, Inc. is a global supplier of office products and services. The company was incorporated in Delaware in 1986 with the opening of our first retail store in Fort Lauderdale, Florida. In fiscal year 2010, we sold $11.6 billion of products and services to consumers and businesses of all sizes through our three business segments: North American Retail Division, North American Business Solutions Division and International Division. Sales are processed through multiple channels, consisting of office supply stores, a contract sales force, an outbound telephone account management sales force, internet sites, direct marketing catalogs and call centers, all supported by our network of supply chain facilities and delivery operations.

Additional information regarding our business segments is presented below and in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and, along with financial information about geographic areas, in Note O Segment Information of Notes to Consolidated Financial Statements located elsewhere in this Annual Report on Form 10-K.

North American Retail Division

Our North American Retail Division sells a broad assortment of merchandise through our chain of office supply stores in the U.S. and Canada. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture from national brands as well as our own private brands. See the Merchandising section below for additional product information. Most stores also contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services. Also, we maintain nationwide availability of a PC support and network installation service that provides our customers with in-home, in-office and in-store support for their technology needs.

Our retail stores are designed to provide a positive shopping experience for the customer. We strive to optimize visual presentation, product placement, shelf capacity and in-stock positions. Our goal is to maintain sufficient inventory in the stores to satisfy current and near-term customer needs, while controlling the overall working capital invested in inventory.

We generally lease our retail facilities and target locations of approximately 20,000 to 15,000 square feet, depending on the needs in the local market. In recent years we have remodeled many of the stores in our portfolio and lowered the square footage to be within this target range.

At the end of 2010, our North American Retail Division operated 1,147 office supply stores throughout the U.S. and Canada. The largest concentration of our retail stores is in California, Texas and Florida, but we have broad representation across North America. The count of open stores may include locations temporarily closed for remodels or other factors. Store opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period	Relocated
2008	1,222	59	14	1,267	7
2009	1,267	6	121	1,152	6
2010	**1,152**	**17**	**22**	**1,147**	**6**

The number of store closings in 2009 followed a strategic review of Division operations as discussed in MD&A.

We currently plan to add approximately 10 new retail stores in North America in 2011. Also, we will continue to evaluate locations as leases become due and will close or relocate stores when appropriate.

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In recent years we have consolidated our supply chain network to utilize existing distribution centers (DCs) to meet the needs of both our retail stores and our North American Business Solutions customers. See the North American supply chain discussion below for additional information.

North American Business Solutions Division

Our North American Business Solutions Division sells nationally branded and private brand office supplies, technology products, furniture and services by means of a dedicated sales force, through catalogs and electronically through our internet sites. We strive to ensure that our customers needs are satisfied through various channel offerings. Our direct business is tailored to serve small- to medium-sized customers. Our direct customers can order products from our catalogs, by phone or through our public web sites (www.officedepot.com), including our public web site devoted to technology products (www.techdepot.com).

Our contract business employs a dedicated sales force that services the office supply needs of predominantly medium-sized to large customers. We believe sales representatives contribute to customer loyalty by building relationships with customers and providing information, business tools and problem-solving solutions to them. We offer contract customers the convenience of shopping on dedicated web sites and in our retail locations, while honoring their contract pricing in lieu of retail pricing. We also use telephone account management for outbound sales contacts with our customers. Sales made at retail locations to our contract customers are included in the results of our North American Retail Division.

Part of our contract business is with various local, state and national governmental agencies. We also enter into agreements with consortiums of governmental and non-profit entities for non-exclusive buying arrangements. One such agreement that had been in place since 2006 expired on January 1, 2011. We have worked to retain many of the customers that previously purchased under that arrangement, and we have other non-exclusive purchasing cooperative arrangements in place that serve many of those customers and markets.

North American Supply Chain

The company operates a network of DCs and crossdock facilities across the United States. In prior years, retail stores were largely replenished through our crossdock flow-through facilities where bulk merchandise was sorted for distribution and shipped to the requesting stores about three times per week. Based on our supply chain consolidation, we closed six crossdock facilities in 2009 and another three during 2010. The crossdock function has been transitioned to the existing DCs within the same market. These combination facilities, which share real estate, technology, labor costs and inventory, satisfy the needs of both retail stores and delivery customers. Costs are allocated to the North American Retail Division and North American Business Solutions Division based on the relative services provided. Benefits of this consolidation include improved inventory management as well as improved service.

Crossdock facility opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period
2008	12			12
2009	12		6	6
2010	**6**		**3**	**3**

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DC opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened/ Acquired	Closed/ Sold	Open at End of Period
2008	21		1	20
2009	20		5	15[(1)]
2010	**15**	**1**	**3**	**13[(1)]**

(1) 8 of the 13 DCs as of December 25, 2010, and 5 of the 15 DCs as of December 26, 2009, were operated as combination facilities.

Inventory is held in our DCs at levels we believe sufficient to meet current and anticipated customer needs. We utilize processes to evaluate the appropriate timing and quantity of reordering with the objective of controlling our investment in inventory, while at the same time ensuring customer satisfaction. Certain purchases are sent directly from the manufacturer to our customers. Some supply chain facilities and some retail locations also house sales offices and administrative offices supporting our contract business. We have outsourced our inbound call center activities; however, in-house staff manages what we consider to be the most critical points of customer interaction.

The majority of our out-bound delivery is currently provided by third-party carriers.

Because sales and marketing efforts and catalog production have similarities between the North American Business Solutions Division and the International Division, those topics are addressed separately after the three segment discussions, though they are integral to understanding the processes and management of these Divisions. Also, the Merchandising section below provides additional product information.

International Division

As of December 25, 2010, Office Depot sold to customers in 53 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities or participate in other ventures covering 41 countries and have alliances in an additional 12 countries. The Merchandising section below provides information on product offerings throughout the company. International operations are managed on a geographic basis, and the International Division operates separate regional headquarters for Europe/Middle East (The Netherlands), Asia (Hong Kong) and Latin America (South Florida).

Our International Division sells office products and services through direct mail catalogs, contract sales forces, internet sites and retail stores, using a mix of company-owned operations, joint ventures, licensing and franchise agreements, alliances and other arrangements. We maintain DCs and call centers throughout Europe and Asia to support these operations. Currently, we have catalog offerings in 13 countries outside of North America and operate more than 40 separate web sites in the International Division. At the end of 2010, the International Division operated, through wholly-owned or majority-owned entities, 97 retail stores in France, Hungary, South Korea and Sweden. In addition, we participate under licensing and merchandise arrangements in South Korea, Thailand, India, Israel, Japan and the Middle East. Following a strategic review of the business in late 2008, we closed our retail operations in Japan during 2009. During 2010, we sold the remaining operating entity in Japan as well as the operating entity in Israel and entered into Office Depot licensing agreements with the respective buyers for continued presence in those markets.

Since 1994, we have participated in a joint venture selling office products and services in Mexico and Central and South America. In recent years, this venture, Office Depot de Mexico, has grown in size and scope and now includes 215 retail locations in Mexico, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, and Panama, as well as call centers and DCs to support the delivery business in certain areas. We provide services to the venture through management consultation, product selection, product sourcing and information technology

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services. Because we participate equally in this business with a partner, we account for the activity under the equity method and venture sales of approximately $962 million in 2010 are neither reflected in our revenues nor in our consolidated retail comparable store statistics. Our portion of venture results is included in Miscellaneous income, net in the Consolidated Statements of Operations.

During 2010, we entered into an amended shareholders agreement related to our venture in India such that control and ownership is now equally shared. Accordingly, we deconsolidated the assets and liabilities of this entity from the year end balance sheet and will account for this investment under the equity method in future periods.

Including company-owned operations, joint ventures, licensing and franchise agreements we sell office products through 455 retail stores outside the U.S. and Canada.

International Division store and DC operations are summarized below (includes only wholly-owned and majority-owned entities):

	Office Supply Stores			
	Open at Beginning of Period	Opened/ Acquired	Closed/ Deconsolidated	Open at End of Period
2008	148	15[(1)]	1	162
2009	162	4	29	137
2010	**137**	**7**	**47[(2)]**	**97**

(1) Includes 13 retail stores obtained in the acquisition of the business in Sweden.

(2) 45 of these stores relate to the deconsolidation of Office Depot Israel.

	Distribution Centers			
	Open at Beginning of Period	Opened/ Acquired	Closed/ Deconsolidated	Open at End of Period
2008	33	19[(3)]	9	43
2009	43	1	5	39
2010	**39**	**1**	**14[(4)]**	**26**

(3) Includes 12 DCs obtained in the acquisition of the business in India and four DCs obtained in the acquisition of the business in Sweden. The majority of the DCs obtained in the 2008 acquisitions are smaller in size than those in other geographies.

(4) 10 of these locations relate to the deconsolidation of Office Depot India.

Merchandising

Our merchandising strategy is to meet our customers needs by offering a broad selection of nationally branded office products, as well as private brand products and services. Our selection of private brand products has increased in breadth and level of sophistication over time. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture under various labels, including Office Depot®, Viking Office Products®, Foray®, Ativa®, Break Escapes , Niceday and Worklife .

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Total company sales by product group were as follows:

	2010	2009	2008*
Supplies	**65.8%**	66.2%	63.2%
Technology	**22.6%**	21.9%	23.9%
Furniture and other	**11.6%**	11.9%	12.9%
	100.0%	100.0%	100.0%

* Conformed to current year product classification.

We classify our products into three categories: (1) supplies, (2) technology, and (3) furniture and other. The supplies category includes products such as paper, binders, writing instruments, school supplies, and ink and toner. The technology category includes products such as desktop and laptop computers, monitors, printers, cables, software, digital cameras, telephones, and wireless communications products. The furniture and other category includes products such as desks, chairs, luggage, sales in our copy and print centers, and other miscellaneous items.

We buy substantially all of our merchandise directly from manufacturers and other primary suppliers, including direct sourcing of private brand products from domestic and offshore sources. We also enter into arrangements with vendors that can lower our unit product costs if certain volume thresholds or other criteria are met. For additional discussion regarding these arrangements, see the Critical Accounting Policies section of MD&A.

We operate separate merchandising functions in North America, Europe and Asia as well as in our joint ventures. Each group is responsible for selecting, purchasing and pricing merchandise as well as managing the product life cycle of our inventory. In recent years, we have increasingly used global offerings across all regions to further reduce our product cost while maintaining product quality.

We operate global sourcing offices in Shenzhen and Hangzhou, China, which allows us to take more direct control of our product sourcing, logistics and quality assurance. These offices consolidate our purchasing power with Asian factories and, in turn, helps us to increase the scope of our private brand offerings.

Sales and Marketing

Our marketing programs are designed to attract new customers and to drive frequency of customer visits to our stores and web sites. We regularly advertise in major newspapers in most of our North American markets. We also advertise through local and national radio, network and cable television advertising campaigns, and direct marketing efforts, such as the internet and social networking.

We offer customer loyalty programs that provide customers with rewards that can be applied against future Office Depot purchases or other incentives. These programs have provided us with valuable information enabling us to market more effectively to our customers. These programs may change in popularity in the future, and we may make alterations to them from time to time.

We perform periodic competitive pricing analyses to monitor each market, and prices are adjusted as necessary to adhere to our pricing philosophy and further our competitive positioning. We generally expect our everyday prices to be highly competitive with other resellers of office products.

We acquire new customers by selectively mailing specially designed catalogs and by making on-premises sales calls to prospective customers. We also make outbound sales calls using dedicated agents through our telephone account management program. We obtain the names of prospective customers in new and existing markets through the purchase of selected lists from outside marketing information services and other sources as well as through the use of a proprietary mailing list system. We also acquire customers through e-mail marketing campaigns and online affiliates. We are a primary sponsor of NASCAR® and are currently designated NASCAR® s official office products partner. No single customer in any of our segments accounts for more than 10% of our total sales.

We consider our business to be only somewhat seasonal, with sales generally trending lower in the second quarter, following the back-to-business sales cycle in the first quarter and preceding the back-to-school sales cycle in the third quarter and the holiday sales cycle in the fourth quarter. Certain working capital components may build and recede during the year reflecting established selling cycles. Business cycles can and have impacted our operations and financial position when compared to other periods.

Catalogs

We use catalogs to market directly to both existing and prospective customers throughout our operations globally. Our catalog offerings typically include all of our products at their regular prices. Prospecting catalogs with special offers designed to attract new customers are mailed at certain intervals. In addition, specialty and promotional catalogs may be delivered more frequently to selected customers. We also produce a Green Book® catalog, which features products that are recyclable, energy efficient, or otherwise have a reduced impact on the environment. We continually evaluate our catalog offerings for efficiency and effectiveness at generating incremental revenues.

Copy and Print

Most of our North American retail stores contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services. This includes Xerox Certified Print Specialist associates to assist with digital imaging and printing and shipping services through UPS and the U.S. Postal Service. In addition to the in-store locations, we operate ten regional print facilities, which support copy and print orders taken in our North American Retail and North American Business Solutions Divisions. We also offer copy and print services to our customers in Europe through our e-commerce business.

Intellectual Property

We hold trademark registrations domestically and worldwide and have numerous other applications pending worldwide for the names Office Depot , Viking , Ativa , Foray , Realspace , and others. We consider the trademark for the Office Depot name the most significant trademark h by us because of its impact on market awareness across all of our businesses and on customers identification with us. As with all domestic trademarks, our trademark registrations in the United States are for a ten year period and are renewable every ten years, prior to their respective expirations, as long as the trademarks are used in the regular course of trade.

Industry and Competition

We operate in a highly competitive environment in all three of our segments. We believe that we compete favorably on the basis of price, service, relationships and selection. We compete with office supply stores, wholesale clubs, discount stores, mass merchandisers, food and drug stores, computer and electronics superstores, internet-based companies and direct marketing companies. These companies, in varying degrees, compete with us in substantially all of our current markets.

Other office supply retail companies market similarly to us in terms of store format, pricing strategy, product selection and product availability in the markets where we operate, primarily those in the U.S. and Canada. We anticipate that in the future we will face increased competition from these chains.

Internationally, we compete on a similar basis to North America. Outside of the U.S. and Canada, we sell through contract and catalog channels in 17 countries and operate retail stores in four countries through wholly-owned or majority-owned entities. Additionally, our International Division provides office products and services in 34 countries through joint ventures, licensing and franchise agreements, cross-border transactions, alliances and other arrangements.

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Employees

As of January 22, 2011, we had approximately 40,000 employees worldwide. Our workforce is largely non-union and our labor relations are generally good. In certain international locations, changes in staffing or work arrangements may need approval of local works councils or other bodies.

Environmental Activities

As both a significant user and seller of paper products, we have developed environmental practices that are values-based and market-driven. Our environmental initiatives center on three guiding principles: (1) recycling and pollution reduction; (2) sustainable forest management; and (3) issue awareness and market development for environmentally preferable products. We offer thousands of different products containing recycled content, including from 35% to 100% post-consumer waste content paper and technology recycling services in our retail stores.

Office Depot continues to implement environmental programs in line with our stated environmental vision to increasingly buy green, be green and sell green including environmental sensitivity in our packaging, operations and sales offerings. In January 2009, our Green retail store prototype received a Leadership in Energy and Environmental Design (LEED) Gold Certification from the U.S. Green Building Council. In 2010, it awarded our global headquarters in Boca Raton, Florida a LEED Gold Certification under the Operations and Maintenance rating system and we were the first office supplies retailer with a headquarters building certified under any of the LEED rating systems. Additional information on our green product offerings can be found at www.officedepot.com/buygreen.

Available Information

We maintain a web site at www.officedepot.com. We make available, free of charge, on the Investor Relations section of our web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (SEC). In addition, the public may read and copy any of the materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the company, that file electronically with the SEC. The address of that website is www.sec.gov.

Additionally, our corporate governance materials, including governance guidelines; the charters of the Audit, Compensation, Finance, and Corporate Governance and Nominating Committees; and the code of ethical behavior may also be found under the Investor Relations section of our web site at www.officedepot.com.

Executive Officers of the Registrant

Neil R. Austrian 71

Mr. Austrian has been Interim Chair and Chief Executive Officer from November 1, 2010. Mr. Austrian has served as a Director since 1998. He also served as our Interim Chair and Chief Executive Officer from October 4, 2004 until March 11, 2005. Mr. Austrian served as President and Chief Operating Officer of the National Football League from April 1991 until December 1999. He was a Managing Director of Dillon, Read & Co. Inc. from October 1987 until March 1991. Mr. Austrian served as a director of Viking Office Products from January 1988 until August 1998 when Office Depot merged with Viking Office Products. He also serves as a director of The DirecTV Group (formerly Hughes Electronics Company).

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Charles Brown Age: 57

Mr. Brown has been President, International since 2005. In 2007, oversight of business development was added to his role. He was the company s Executive Vice President and Chief Financial Officer from 2001 to 2005. Prior to that, Mr. Brown was Senior Vice President, Finance and Controller since he joined our company in 1998. Before joining Office Depot, he was Senior Vice President and Chief Financial Officer of Denny s, Inc. from 1996 until 1998; from 1994 until 1995, he was Vice President and Chief Financial Officer of ARAMARK International; and from 1989 until 1994, he was Vice President and Controller of Pizza Hut International, a Division of PepsiCo, Inc. Mr. Brown assumed the role of acting Chief Financial Officer of the company effective March 1, 2008 and served in that role until August 2008, when Michael Newman assumed the role of the company s Chief Financial Officer.

Elisa Garcia Age: 53

Ms. Garcia was appointed Executive Vice President, General Counsel and Corporate Secretary in July 2007 with overall responsibility for global legal and compliance matters and governmental relations. Prior to joining Office Depot, Ms. Garcia served as Executive Vice President, General Counsel and Corporate Secretary of Domino s Pizza, Inc. from April 2000. Prior to joining Domino s Pizza, Ms. Garcia served as Latin American Regional Counsel for Philip Morris International, and Corporate Counsel for GAF Corporation.

Monica Luechtefeld Age: 62

Ms. Luechtefeld was appointed Executive Vice President, E-Commerce and Direct Marketing in March 2009. Prior to this role, Ms. Luechtefeld held the position of Executive Vice President, Information Technology since early 2005. She was also responsible for business development from early 2005 to 2007. She assumed responsibility for supply chain from 2007 through 2008. Previously, she was Executive Vice President of E-Commerce from 2000. Prior to this role, she held several officer positions including Vice President, Marketing and Sales Administration and Vice President of Contract Marketing & Business Development. Ms. Luechtefeld joined Office Depot in 1993, serving as General Manager of the Southern California Region of Office Depot until 1996.

Michael Newman Age: 54

Mr. Newman was appointed Executive Vice President, Chief Financial Officer in August 2008. Prior to joining Office Depot, Mr. Newman served as Chief Financial Officer of Platinum Research Organization, Inc. from April 2007 through February 2008. Prior to joining Platinum Research Organization, Mr. Newman was employed as an independent consultant since 2005. Mr. Newman also served as Chief Financial Officer of Blackstone Crystal Holdings Capital Partners from 2004 to 2005 and Chief Financial Officer of Radio Shack Corp. from 2001 to 2004. Mr. Newman also held Chief Financial Officer roles at Intimate Brands and Hussmann International (which was acquired by Ingersoll-Rand in 2000). He also spent 17 years at General Electric in a variety of management roles both in the United States and Europe.

Kevin Peters Age: 53

Mr. Peters was appointed President of North American Retail Division effective April 2010. Mr. Peters previously served as Executive Vice President, Supply Chain and Information Technology since March 2009 and joined the company in 2007 as Executive Vice President, Supply Chain. Prior to joining the company, Mr. Peters spent five years in management roles at W.W. Grainger, including Senior Vice President, Supply Chain and Merchandising. Prior to W.W. Grainger, Mr. Peters spent 11 years at The Home Depot, serving as Vice President and General Manager, Home Depot Commercial Direct and Vice President Supply Chain and Merchandising.

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Steven Schmidt Age: 56

Mr. Schmidt was appointed President, North American Business Solutions in July 2007. Prior to joining Office Depot, Mr. Schmidt spent 11 years with the ACNielsen Corporation, most recently serving as President and Chief Executive Officer. Prior to joining ACNielsen, Mr. Schmidt spent eight years at the Pillsbury Food Company, serving as President of its Canadian and Southeast Asian operations. He has also held management positions at PepsiCo and Procter & Gamble.

Daisy Vanderlinde Age: 59

Ms. Vanderlinde was appointed Executive Vice President, Human Resources in late 2005. Prior to joining Office Depot, Ms. Vanderlinde was Senior Vice President, Human Resources and Loss Prevention, for AutoZone Inc. from 2001 to 2005, and was a member of the Executive Committee. Ms. Vanderlinde has also served as a senior HR officer for other retailers, including Tractor Supply Company, Marshalls, Inc., and The Broadway Stores.

Mark Hutchens Age: 45

Mr. Hutchens was appointed Senior Vice President and Controller in September 2008. Prior to assuming that position, Mr. Hutchens held the position of Senior Vice President of Finance, International Division since late 2006. Prior to joining the company, Mr. Hutchens served as Assistant Treasurer at Yum! Brands, Inc., from February 2005 to November 2006 and as General Auditor from November 2003 to February 2005. In addition, Mr. Hutchens served in a variety of senior management positions at Yum! from May 1996 to November 2003. Prior to joining Yum! Mr. Hutchens served in various management positions at Ford Motor Company, where he was employed until May 1996.

Information with respect to our directors is incorporated herein by reference to information included in the Proxy Statement for our 2011 Annual Meeting of Shareholders.

Item 1A. Risk Factors.

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results. We have provided below a list of risk factors that should be reviewed when considering investing in our securities. These are not all the risks we face, and other factors currently considered immaterial or unknown to us may impact our future operations.

Economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance Our operating results and performance depend significantly on worldwide economic conditions and their impact on business and consumer spending. The decline in business and consumer spending resulting from the global recession and the deterioration of global credit markets has caused our comparable store sales to decline from prior periods and we have experienced similar declines in most of our other domestic and international businesses. Our business and financial performance may continue to be adversely affected by current and future economic conditions and the level of consumer debt and interest rates, which may cause a continued or further decline in business and consumer spending.

Our business is highly competitive and failure to adequately differentiate ourselves could adversely impact our financial performance The office products market is highly competitive and we compete locally, domestically and internationally with a variety of retailers, distributors and internet operators such as office supply stores, mass merchant retailers, warehouse clubs, computer and electronics stores, local merchants and contract stationers. Many competitors have also increased their presence by broadening their assortments or broadening from retail into the delivery and e-commerce channels, while others have substantially greater financial resources to devote to sourcing, marketing and selling their products. Product pricing is also becoming ever more competitive, particularly among competitors on the internet. In order to achieve and maintain expected profitability levels, we must continue to grow by adding new customers and taking market share from competitors. If we are unable to effectively compete, our sales and financial performance will be negatively impacted.

We do a significant amount of business with government entities and loss of this business could negatively impact our results One of our largest U.S. customer groups consists of various state and local governments, government agencies and non-profit organizations. Contracting with state and local governments is highly competitive, subject to federal and state procurement laws, requires more restrictive contract terms and can be expensive and time-consuming. Bidding such contracts often requires that we incur significant upfront time and expense without any assurance that we will win a contract. Our ability to compete successfully for and retain business with the federal and various state and local governments is highly dependent on cost-effective performance and is also sensitive to changes in national and international priorities and U.S., state and local government budgets, which in the current economy continue to decrease. We service a substantial amount of government agency business through agreements with consortiums of governmental and non-profit entities. One such contract expired on January 1, 2011. If we are unsuccessful in retaining these customers, or if there is a significant reduction in sales under our large government contracts or if we lose these contracts, it could adversely impact our financial results.

If a significant number of our vendors demand accelerated payments or require cash on delivery such demands could have an adverse impact on our operating cash flow and result in severe stress on our liquidity We purchase products for resale under credit arrangements with our vendors and have been able to negotiate payment terms that are approximately equal in length to the time it takes to sell the vendor s products. In weak global markets, vendors may seek credit insurance to protect against non-payment of amounts due to them. If we continue to experience declining operating performance, and if we experience severe liquidity challenges, vendors may demand that we accelerate our payment for their products. Borrowings under our existing credit facility could reach maximum levels under such circumstances and we would seek alternative liquidity measures but may not be able to meet our obligations as they become due.

The tightening of the credit markets or a downgrade in our credit ratings could make it more difficult for us to access funds, refinance indebtedness, obtain new funding or issue securities Historically, we have generated positive cash flow from operating activities and have had access to broad financial markets that provide the liquidity we need to operate our business. Together, these sources have been used to fund operating and working capital needs, as well as invest in business expansion through new store openings, capital improvements and acquisitions. However, due to the downturn in the global economy our operating results have declined, while volatility in the capital markets has decreased credit availability. Further deterioration in our financial results could negatively impact our credit ratings or access to liquidity. If such conditions were to persist, we would seek alternative sources of liquidity but may not be able to meet our obligations as they become due.

A default under our credit facility could significantly restrict our access to funding and adversely impact our operations Our asset based credit facility contains a fixed charge coverage ratio covenant that is operative only when borrowing availability is below $187.5 million or prior to a restricted transaction, such as incurring additional indebtedness, acquisitions, dispositions, dividends, or share repurchases. The agreement also contains representations, warranties, affirmative and negative covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, we may not have sufficient assets to repay our asset based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Acceleration of any obligation under any of our material debt agreements or instruments would permit the holders of our other material debt to accelerate their obligations.

Loss of key personnel or failure to effectively manage and motivate our workforce could negatively impact our sales and profitability We depend on senior management and other key personnel, and the loss of certain personnel could result in the loss of management continuity and institutional knowledge. We are currently undergoing a search for a new CEO and attracting and selecting the right individual to lead our company will be critical for our future success. We depend heavily upon our labor force to identify new customers and provide desired products and personalized customer service to existing customers. Changes in factors, such as overall unemployment levels, local competition for qualified personnel, prevailing wage rates, changes in employment law, as well as rising employee benefits costs, including insurance in the areas in which we operate, could interfere with our ability to adequately provide support to customers and increase our labor costs. We also engage third parties in some of our processes such as delivery and transaction processing who may face similar issues. In addition, we operate in various jurisdictions, each with distinct labor laws and regulations, which increase exposure, complexity and cost of compliance.

Disruption of global sourcing activities or private brand quality concerns could negatively impact brand reputation and earnings In recent years, we have substantially increased the number and types of products that we sell under our private brands including Office Depot® and other proprietary brands. Sources of supply may prove to be unreliable, or the quality of the globally sourced products may vary from our expectations. Economic and civil unrest in areas of the world where we source such products, as well as shipping and dockage issues, could adversely impact the availability or cost of such products, or both. Moreover, as we seek indemnities from the manufacturers of these products, the uncertainty of realization of any such indemnity and the lack of understanding of U.S. product liability laws in certain parts of Asia make it more likely that we may have to respond to claims or complaints from our customers. Most of our goods imported to the U.S. arrive from Asia through ports located on the U.S. west coast and we are therefore subject to potential disruption due to labor unrest, security issues or natural disasters affecting any or all of these ports.

Changes in tax laws in any of the multiple jurisdictions in which we operate can cause fluctuations in our overall tax rate impacting our reported earnings Our global tax rate is derived from a combination of applicable tax rates in the various domestic and international jurisdictions in which we operate. Depending upon the sources of our income, any agreements we may have with taxing authorities in various jurisdictions, and the tax filing positions we take in these jurisdictions, our overall tax rate may fluctuate significantly from other companies or even our own past tax rates. At any given point in time, we base our estimate of an annual effective tax rate upon a calculated mix of the tax rates applicable to our company and to estimates of the amount of income likely to be generated in any given geography. The loss of one or more agreements with taxing jurisdictions, a change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from the tax audits that regularly are in process in any of the jurisdictions in which we operate could result in an unfavorable change in our overall tax rate.

We are subject to legal proceedings and legal compliance risks We are involved in various legal proceedings, which from time to time may involve class action lawsuits, state and federal governmental inquiries, audits and investigations, employment, tort, consumer litigation and intellectual property litigation. At times, such matters may involve directors and/or executive officers. Certain of these legal proceedings, including government investigations, may be a significant distraction to management and could expose our company to significant liability, including damages, fines, penalties, attorneys fees and costs, and non-monetary sanctions, including suspensions and debarments from doing business with certain government agencies, any of which could have a material adverse effect on our business and results of operations.

Failure to successfully manage domestic and international expansion could have an adverse effect on our operations and financial results Circumstances outside of our control could negatively impact anticipated store openings, joint ventures and franchise arrangements. We cannot provide assurance that our new store openings, including some newly sized or formatted stores or retail concepts, will be successful. There may be unintended consequences of adding joint venture and franchising partners to the Office Depot model, such as the potential for compromised operational control in certain countries and inconsistent international brand image. These arrangements may also add complexity to our processes and may require as yet unforeseen operational adjustments in the future that could adversely impact our operations and financial results.

We face such risks as foreign currency fluctuations, potential unfavorable foreign trade policies or unstable political and economic conditions As of December 25, 2010, we sold to customers in over 50 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities and participate in joint ventures and alliances globally. Sales from our operations outside the U.S. are denominated in local currency, which must be translated into U.S. dollars for reporting purposes and therefore our consolidated earnings can be significantly impacted by fluctuations in world currency markets. We are required to comply with multiple foreign laws and regulations that may differ substantially from country to country, requiring significant management attention and cost. In addition, the business cultures in certain areas of the world are different than those that prevail in the U.S., and we may be at a competitive disadvantage against other companies that do not have to comply with standards of financial controls or business integrity that we are committed to maintaining as a U.S. publicly traded company.

Changes in the regulatory environment may increase our expenses and may negatively impact our business We are subject to regulatory matters relating to our corporate conduct and the conduct of our business, including securities laws, consumer protection laws, advertising regulations, and wage and hour regulations. Certain jurisdictions have taken a particularly aggressive stance with respect to such matters and have implemented new initiatives and reforms, including more stringent disclosure and compliance requirements. To the extent that we are subject to more challenging regulatory environments and enhanced legal and regulatory requirements, such exposure could have a material adverse effect on our business, including the added cost of increased compliance measures that we may determine to be necessary.

Increases in fuel prices could have an adverse impact on our earnings We operate a large network of stores and delivery centers around the globe. As such, we purchase significant amounts of fuel needed to transport products to our stores and customers as well as shipping costs to import products from overseas. While we may hedge our anticipated fuel purchases, the underlying commodity costs associated with this transport activity have been volatile in recent years and disruptions in availability of fuel could cause our operating costs to rise significantly to the extent not covered by our hedges. Additionally, we rely on predictable energy costs to operate our stores and DCs. Fluctuations in the availability or cost of our energy could have a material adverse effect on our profitability.

Disruptions of our computer systems could adversely affect our operations We rely heavily on computer systems to process transactions, manage our inventory and supply-chain and to summarize and analyze our global business. If our systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them and may experience an interruption of our normal business activities or loss of critical data. We are undertaking certain system enhancements and conversions to increase productivity and efficiency, that, if not done properly, could divert the attention of our workforce during development and implementation and constrain for some time our ability to provide the level of service our customers demand. Also, once implemented, the new systems and technology may not provide the intended efficiencies or anticipated benefits and could add costs and complications to our ongoing operations.

Compromises of our information security could adversely affect our reputation, disrupt our operations and expose us to litigation Through our sales and marketing activities, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our web site, or otherwise communicate and interact with us. We also gather and retain information about our employees in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. In addition, our online operations at www.officedepot.com depend upon the secure transmission of confidential information over public networks, such as information permitting cashless payments. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems are entirely free from vulnerability to attack.

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Our business could be disrupted due to weather related factors Because of our heavy concentration in the southern U.S. (including Florida and the Gulf Coast), we may be more susceptible than some of our competitors to the effects of tropical weather disturbances, such as hurricanes. In addition, winter storm conditions in areas that have a large concentration of our business activities could also result in lost retail sales, supply chain constraints or other business disruptions. We believe that we have taken reasonable precautions to prepare for weather-related events, but our precautions may not be adequate to deal with such events in the future.

The unionization of a significant portion of our workforce could increase our overall costs and adversely affect our operations We have a large employee base and while our management believes that our employee relations are good, we cannot be assured that we will not experience pressure from labor unions or become the target of campaigns similar to those faced by our competitors. The potential for unionization could increase if federal legislation is passed that would facilitate labor organization. Significant union representation would require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by significantly increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

BC Partners significant ownership interest dilutes the interests of our common shareholders, may discourage, delay or prevent a change in control of our company and grants important rights to BC Partners, Inc. The Series A and Series B Preferred Stock that we sold in June 2009 to funds advised by BC Partners, Inc. (the Investors) were immediately convertible into shares of our common stock at an initial conversion price of $5.00 per share (subject to a conversion cap). The investment equates to an initial ownership interest of approximately 20%, assuming the full conversion of each series of preferred stock into the company s common stock. Any sales in the public market of the shares of common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

The initial dividend rate remains 10% on both the Series A and Series B Preferred Stock, and dividends are paid quarterly in cash or are added to the liquidation preference at our option and are subject to certain restrictions. To the extent that dividends are added to the liquidation preference, this further increases the ownership interest of the Investors and dilutes the interests of the common shareholders.

The holders of the Series A and Series B Preferred Stock are entitled to vote with the holders of our common stock on an as-converted basis, subject to limitations imposed by New York Stock Exchange (NYSE) shareholder approval requirements. The Investors have agreed to cause all of their common stock and preferred stock entitled to vote at any meeting of our shareholders to be present at such meeting and to vote all such shares in favor of any nominee or director nominated by the company s Corporate Governance and Nominating Committee, against the removal of any director nominated by such committee and, with respect to any other business or proposal, in accordance with the recommendation of the board of directors (other than with respect to the approval of any proposed business combination agreement between the company and another entity). This may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company.

We also entered into a related Investor Rights Agreement pursuant to which we granted certain rights to the Investors that may restrain our ability to take certain actions in the future. Subject to certain exceptions, for so long as the Investors ownership percentage is equal to or greater than 10%, the approval of at least one of the directors designated to our board of directors by the Investors is required for the company to incur any indebtedness for borrowed money in excess of $200 million in the aggregate during any fiscal year if the ratio of the consolidated debt of the company and its subsidiaries to the trailing four quarter adjusted EBITDA of the company and its subsidiaries, on a consolidated basis, is more than 4x. In addition, for so long as the Investors ownership percentage is (i) equal to or greater than 15%, the Investors are entitled to nominate three directors, (ii) less than 15% but more than 10%, two directors and (iii) less than 10% but more than 5%, one director. There can be no assurance that the interests of the Investors are aligned with those of our other shareholders. Investor interests can differ from each other and from other corporate interests and it is possible that this significant shareholder may have interests that differ from management and those of other shareholders. If the Investors were to sell, or otherwise transfer, all or a large percentage of their holdings, our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

Disclaimer of Obligation to Update

We assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report on Form 10-K to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

As of January 22, 2011, our North American Retail Division operated 1,131 office supply stores in 46 U.S. states, the District of Columbia and Puerto Rico and 12 office supply stores in four Canadian provinces. As of January 22, 2011, our International Division operated 97 office supply stores (excluding our participation in arrangements through non-consolidated entities) in four countries outside of the United States and Canada. The following table sets forth the locations of these facilities.

STORES

State/Country	#	State/Country	#
UNITED STATES:			
Alabama	19	North Dakota	2
Alaska	2	Ohio	13
Arizona	5	Oklahoma	17
Arkansas	12	Oregon	19
California	145	Pennsylvania	13
Colorado	41	Puerto Rico	6
Connecticut	4	South Carolina	21
Delaware	2	South Dakota	1
District of Columbia	1	Tennessee	27
Florida	145	Texas	155
Georgia	49	Utah	9
Hawaii	4	Virginia	24
Idaho	6	Washington	37
Illinois	46	West Virginia	2
Indiana	22	Wisconsin	14
Iowa	3	Wyoming	3
Kansas	8	TOTAL UNITED STATES	1,131
Kentucky	21		
Louisiana	38	**CANADA:**	
Maryland	26	Alberta	3
Massachusetts	1	British Columbia	4
Michigan	21	Manitoba	2
Minnesota	10	Ontario	3
Mississippi	17	TOTAL CANADA	12
Missouri	25		
Montana	4	FRANCE	52
Nebraska	6	HUNGARY	16
Nevada	19	SOUTH KOREA	16
New Jersey	10	SWEDEN	13
New Mexico	7	TOTAL OUTSIDE NORTH AMERICA	97
New York	10		
North Carolina	39		

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As of January 22, 2011, we had 16 North American supply chain facilities in 12 U.S. states. These facilities, which support our North American Retail and North American Business Solutions Divisions, included thirteen DCs and three crossdock facilities. Eight of the thirteen DCs we operated as of January 22, 2011, were combination facilities, which share real estate, technology, labor costs and inventory and satisfy the needs of both retail stores and delivery customers. As of January 22, 2011, we also had 26 DCs in 13 countries outside of the United States and Canada, which support our International Division. The following tables set forth the locations of our supply chain facilities as of January 22, 2011.

DCs (North America)

State	#	State	#
UNITED STATES:			
Arizona	1	Pennsylvania	1
Florida	1	Minnesota	1
California	2	Ohio	1
Colorado	1	Texas	2
Georgia	1	Washington	1
Illinois	1	TOTAL UNITED STATES	13

Crossdock Facilities (North America)

State	#	State	#
UNITED STATES:			
Florida	1	Mississippi	1
Illinois	1	TOTAL UNITED STATES	3

International DCs

Country	#	Country	#
Belgium	1	South Korea	1
China	6	Spain	1
Czech Republic	1	Sweden	2
France	5	Switzerland	1
Germany	2	The Netherlands	1
Ireland	1	United Kingdom	3
Italy	1	TOTAL INTERNATIONAL	26

Our corporate offices in Boca Raton, Florida consist of approximately 625,000 square feet of office space in three interconnected buildings. This facility is being leased over 15 years with certain renewal options. The lease is accounted for as a capital lease. We also lease a corporate office in Venlo, the Netherlands which is approximately 226,000 square feet, and lease a systems data center in Charlotte, North Carolina which is approximately 53,000 square feet and we lease other administrative offices such as those in Hong Kong and China. Each of our facilities is considered to be in good condition, adequate for its purpose and suitably utilized according to the individual nature and requirements of the relevant operations.

Although we own a small number of our retail store locations and European DCs, most of our facilities are leased or subleased, with initial lease terms expiring in various years through 2032.

Item 3. Legal Proceedings.

We are involved in litigation arising in the normal course of our business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), we do not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows.

As previously disclosed, on October 21, 2010, the company reached a final settlement of an investigation that has been conducted by the SEC. In connection with the settlement, the company, without admitting or denying the SEC s allegations, agreed to pay a civil penalty in the amount of $1 million and consented to a cease and desist order from committing or causing violations of Section 13(b) of the Securities Exchange Act of 1934 (and related rules), which requires the maintenance of accurate books and records and internal controls, and Section l3(a) of the Securities Exchange Act of 1934 and Regulation FD. Regulation FD is a rule regarding communication with analysts and investors. In addition, the Company s former Chief Executive Officer also reached a civil settlement with the SEC related to Regulation FD. Under the settlement, without admitting or denying the SEC s allegations, he agreed to an SEC order requiring future compliance with Regulation FD and agreed to pay a civil penalty. The settlement concludes for the company and its former Chief Executive Officer all matters arising from the SEC investigation.

On December 13, 2010, the United States Court of Appeals for the Eleventh Circuit affirmed the dismissal with prejudice of the Consolidated Lawsuit (defined below). As background, in early November 2007, two putative class action lawsuits were filed against the Company and certain of its executive officers alleging violations of the Securities Exchange Act of 1934. The allegations made in these lawsuits primarily related to the accounting for vendor program funds. Each of the foregoing lawsuits was filed in the United States District Court for the Southern District of Florida and captioned as follows: (1) Nichols v. Office Depot, Inc., Steve Odland and Patricia McKay filed on November 6, 2007 and (2) Sheet Metal Worker Local 28 Pension Fund v. Office Depot, Inc., Steve Odland and Patricia McKay filed on November 5, 2007. On March 21, 2008, the district court entered an Order consolidating the class action lawsuits (the Consolidated Lawsuit). Lead plaintiff in the Consolidated Lawsuit, the New Mexico Educational Retirement Board, filed its Consolidated Amended Complaint on July 2, 2008, and its Second Consolidated Amended Complaint on April 20, 2009. On January 14, 2010, the district court dismissed the Second Consolidated Amended Complaint with prejudice, which led to the aforementioned appeal.

In addition, in the ordinary course of business, our sales to and transactions with government customers may be subject to investigations, audits and review by governmental authorities and regulatory agencies, with which we cooperate. Many of these investigations, audits and reviews are resolved without incident. While claims in these matters may at times assert large demands, we do not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows. Among such matters, during the first quarter of 2011, we were notified that the United States Department of Justice has commenced an investigation into certain pricing practices related to an expired agreement that was in place between January 2, 2006 and January 1, 2011, pursuant to which state, local and non-profit agencies could purchase office supplies.

Item 4. Removed and reserved.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol ODP. As of the close of business on January 22, 2011, there were 7,281 holders of record of our common stock. The last reported sale price of the common stock on the NYSE on January 22, 2011 was $5.60

The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as quoted on the NYSE Composite Tape. These prices do not include retail mark-ups, markdowns or commission.

	High	Low
2010		
First Quarter	**$ 8.300**	**$ 5.190**
Second Quarter	**9.190**	**4.490**
Third Quarter	**5.010**	**3.360**
Fourth Quarter	**5.530**	**4.250**
2009		
First Quarter	$ 4.170	$ 0.590
Second Quarter	5.370	1.250
Third Quarter	6.940	3.480
Fourth Quarter	7.840	5.570

We have never declared or paid cash dividends on our common stock and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. Our asset based credit facility includes limitations in certain circumstances on restricted payments including share repurchases and the payment of cash dividends. These restrictions are based on the then-current and pro-forma fixed charge coverage ratio and borrowing availability at the point of consideration. Further, so long as investors in our redeemable preferred stock own at least 10% of the common stock voting rights, on an as-converted basis, the affirmative vote of a majority of the shares of preferred stock then outstanding and entitled to vote is required for the declaration or payment of a dividend on common stock if dividends on the preferred stock have not been paid in full in cash.

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The foregoing graph shall not be deemed to be filed as part of this Form 10-K and does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the company specifically incorporates the graph by reference.

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Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial data at and for each of the five fiscal years in the period ended December 25, 2010. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included in Item 8 of this report, and Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

(In thousands, except per share amounts and statistical data)	**2010**	2009	2008	2007	2006
Statements of Operations Data:					
Sales	**$ 11,633,094**	$ 12,144,467	$ 14,495,544	$ 15,527,537	$ 15,010,781
Net earnings (loss) attributable to Office Depot, Inc [(1)(2)(3)]	**$ 34,892**	$ (596,465)	$ (1,478,938)	$ 395,615	$ 503,471
Net earnings (loss)	**33,310**	(598,724)	(1,481,003)	394,704	503,471
Net earnings (loss) available to common shareholders [(1)(2)(3)]	**$ (2,221)**	$ (626,971)	$ (1,478,938)	$ 395,615	$ 503,471
Net earnings (loss) per share:					
Basic	**$ (0.01)**	$ (2.30)	$ (5.42)	$ 1.45	$ 1.79
Diluted	**(0.01)**	(2.30)	(5.42)	1.43	1.75
Statistical Data:					
Facilities open at end of period:					
United States and Canada:					
Office supply stores	**1,147**	1,152	1,267	1,222	1,158
Distribution centers	**13**	15	20	21	20
Crossdock facilities	**3**	6	12	12	10
International [(4)]:					
Office supply stores	**97**	137	162	148	125
Distribution centers	**26**	39	43	33	32
Call centers	**25**	29	27	31	30
Total square footage North American Retail Division	**27,559,184**	28,109,844	30,672,862	29,790,082	28,520,269
Percentage of sales by segment:					
North American Retail Division	**42.7%**	42.1%	42.2%	43.9%	45.2%
North American Business Solutions Division	**28.3%**	28.7%	28.6%	29.1%	30.5%
International Division	**29.0%**	29.2%	29.2%	27.0%	24.3%
Balance Sheet Data:					
Total assets	**$ 4,652,366**	$ 4,890,346	$ 5,268,226	$ 7,256,540	$ 6,557,438
Long-term debt, excluding current maturities	**659,820**	662,740	688,788	607,462	570,752
Redeemable preferred stock, net	**355,979**	355,308			

(1) Fiscal year 2010 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include charges of approximately $51 million for the write-off of Construction in Progress related to developed software. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(2) Fiscal year 2009 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include charges of approximately $322 million to establish valuation allowances on certain deferred tax assets. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(3) Fiscal year 2008 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include impairment charges for goodwill and trade names of $1.27 billion and other asset impairment charges of $222 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(4) Facilities of wholly-owned or majority-owned entities operated by our International Division.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

OVERVIEW

Our business is comprised of three segments. The North American Retail Division includes our retail office supply stores in the U.S. and Canada, which offer office supplies and services, computers and business machines and related supplies, and office furniture. Most stores also offer a copy and print center offering printing, reproduction, mailing and shipping. The North American Business Solutions Division sells office supply products and services in the U.S. and Canada directly to businesses through catalogs, internet web sites and a dedicated sales force. Our International Division sells office products and services through catalogs, internet web sites, a dedicated sales force and retail stores.

Our fiscal year results are based on a 52- or 53-week retail calendar ending on the last Saturday in December. Each of the three years addressed in this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is based on 52 weeks. Our next 53 week fiscal year will occur in 2011. Our comparable store sales relate to stores that have been open for at least one year. A summary of factors important to understanding our results for 2010 is provided below and further discussed in the narrative that follows this overview.

Total company sales were $11.6 billion in 2010, down 4% compared to 2009. Sales in North America decreased 4% for the year; comparable store sales in the North American Retail Division decreased 1%. International Division sales decreased 5% in U.S. dollars and 2% in local currencies.

Gross margin for 2010 improved 90 basis points from 2009, following a 30 basis point increase from 2008. The increase in 2010 primarily reflects lower occupancy costs, better management of promotional activity and benefits from product line reviews and increased direct imports.

During 2010, we recognized $51 million for impairment of certain software applications, $23 million for net losses on business dispositions, facility closure and severance costs and $13 million associated with the departure of our former CEO and other executive compensation costs. The per share impact of these items totaled $0.30.

As part of our previously announced strategic reviews, we recorded charges of $253 million and $199 million in 2009 and 2008, respectively. These expenses (the Charges) include primarily charges for lease accruals, severance expenses and asset impairments. Charges under these programs ended in 2009.

During 2010, we recognized significant tax and interest benefits from settlements with tax authorities, resulting in a full year benefit of approximately $0.18 per share. During 2009, we recorded a non-cash tax expense to establish valuation allowances on deferred tax assets of $321.6 million ($1.18 per share) because of the uncertainty of future realizability of these assets.

At the end of 2010, we had $627 million in cash and approximately $674 million available on our asset based credit facility. Cash flow from operating activities was $200 million for 2010.

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A summary of items above affecting diluted (loss) per share by year is as follows:

	2010	2009	2008
Diluted (loss) per share	**$ (0.01)**	$ (2.30)	$ (5.42)
Less charges (credits):			
2010 Impairment and other charges	**0.30**		
2010 Tax settlements and related interest	**(0.18)**		
Prior year Charges		0.86	5.01
2009 Valuation Allowance		1.18	

In addition to the tax settlement and related interest income and expense reversal, which are presented in the table above for the 2010 period, the company recognized significant tax benefits from deductions that will be carried back to an earlier tax period. Because the company has valuation allowances in that jurisdiction, these carryback items impact the 2010 effective tax rate, and are unusual, but will be received as a tax refund. Accordingly, such benefits have not been included in this presentation. Carryback opportunities will not exist in this jurisdiction for future periods and the company will not be able to recognize originating deferred tax assets until the related valuation allowances are removed. This accounting will likely adversely impact future effective tax rates.

OPERATING RESULTS

Discussion of other income and expense items, including material Charges and changes in interest and taxes follows our review of segment results.

NORTH AMERICAN RETAIL DIVISION

(Dollars in millions)	**2010**	2009	2008
Sales	**$ 4,962.8**	$ 5,113.6	$ 6,112.3
% change	**(3)%**	(16)%	(10)%
Division operating profit (loss)	**$ 127.5**	$ 105.5	$ (29.2)
% of sales	**2.6%**	2.1%	(0.5)%

Sales in our North American Retail Division decreased 3% in 2010, 16% in 2009 and 10% in 2008. During 2009, we closed 120 underperforming stores as part of the strategic review initiated during the fourth quarter of 2008. Comparable store sales in 2010 from the 1,124 stores that were open for more than one year decreased 1%. Comparable store sales in 2009 from the 1,139 stores that were open for more than one year decreased 14%. Transaction counts were lower for the full year, but positive for the third and fourth quarters of 2010. Average order values declined, reflecting lower sales in our peripherals product category, in part from our reduction in television offerings. Sales in furniture, technology, technology services and Copy and Print Depot increased while sales of supplies declined. The overall sales declines in both 2009 and 2008 were driven by macroeconomic factors as consumers and small business customers curtailed their spending in response to the global financial crisis. While transaction counts were down in 2009 compared to 2008, a drop in average order value was the greater contributor to our sales decline. Additionally, our commitment to proactively reduce promotions in select categories resulted in lower sales compared to 2008. Within each of our three major product categories of supplies, technology and furniture, we experienced sales declines compared to 2008. The negative comparable store sales were driven by fewer sales of higher priced, discretionary categories in furniture and technology.

The North American Retail Division reported operating profit of approximately $128 million in 2010, $106 million in 2009 and an operating loss of $29 million in 2008. Gross margins increased in 2010 from lower occupancy costs, lower product cost driven by line reviews and direct import, and better management of

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promotional activity. Increased advertising expense during 2010 was partially offset by lower variable pay. The increase in Division operating profit for 2009 was driven by lower asset impairments, an improvement in product margins and lower operating expenses. The improvement in product margins was driven primarily by a more favorable product mix, lower levels of inventory shrinkage and valuation charges as well as lower product costs. These product margin improvements were partially offset by the deleveraging of fixed property costs on lower sales levels. During 2008, we recorded fixed asset impairment charges of approximately $98 million. Store impairment charges in 2010 and 2009 totaled $2 million and $3 million, respectively. Additionally, as a result of the 2008 fixed asset impairments, we experienced lower levels of depreciation expense in 2010 and 2009. Division operating profit in all periods was negatively affected by the unfavorable impact our sales volume decline had on gross margin and operating expenses (the flow through impact), with the greatest impact experienced during 2009.

At the end of 2010, we operated 1,147 retail stores in the U.S. and Canada. We opened 17 new stores during 2010 and six stores during 2009. We closed 22 stores in North America during 2010 and 121 during 2009, of which 120 were part of the strategic review initiated during the fourth quarter of 2008. We anticipate opening approximately 10 stores in 2011. Also, we will continue to evaluate locations as leases become due and will close or relocate stores when appropriate.

NORTH AMERICAN BUSINESS SOLUTIONS DIVISION

(Dollars in millions)	**2010**	2009	2008
Sales	**$ 3,290.4**	$ 3,483.7	$ 4,142.1
% change	**(6)%**	(16)%	(8)%
Division operating profit	**$ 96.5**	$ 98.2	$ 119.8
% of sales	**2.9%**	2.8%	2.9%

Sales in our North American Business Solutions Division decreased 6% in 2010, 16% in 2009 and 8% in 2008. The restructuring of certain non-core businesses in late 2009 contributed approximately 1% to the 2010 sales decline. While the economic climate remained challenging in 2010, the rate of our sales decline improved sequentially throughout the year. Sales in the direct channel were negative for the full year, but relatively flat in the third quarter and positive in the fourth quarter. Sales in the contract channel were also lower for the year. For the Division, both the number of customer transactions and the average order value per transaction were lower in 2010 compared to 2009. On January 1, 2011, our primary purchasing cooperative agreement for public sector customers expired. We have several other non-exclusive arrangements with other cooperative purchasing consortiums and anticipate retaining a substantial amount of our public sector business. The 2009 sales decline was principally driven by a decrease in the number of customer transactions, which resulted in part from aggressive pricing from some of our competitors in our large, national accounts and contraction in our public sector business. On a product category basis, the Division experienced weakness in durables such as furniture, technology and peripherals, as customers delayed their purchases of these products in favor of consumables like paper, ink and toner.

Division operating profit totaled $97 million in 2010, compared to $98 million in 2009. The flow through impacts of lower sales adversely affected all periods, with the greatest impact in 2009. The 2010 decrease in operating profit was partially offset by higher gross margins from a shift in the mix of customers, some pricing improvements and product mix. Increased advertising expenses during 2010 were offset by initiatives to reduce the Division s cost structure and lower variable pay for the period. In addition to the negative flow through impact in 2009 we experienced lower product margins, reflecting a less profitable product mix and cost increases that could not be passed on to our customers. Division operating profit for 2009 also reflects increased promotions in our direct business during the first half of the year. These negative impacts were partially offset by reductions in operating expenses, including a decrease in distribution costs as well as lower payroll and advertising expenses.

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INTERNATIONAL DIVISION

(Dollars in millions)	**2010**	2009	2008
Sales	**$ 3,379.8**	$ 3,547.2	$ 4,241.1
% change	**(5)%**	(16)%	1%
% change in local currency sales	**(2)%**	(9)%	(2)%
Division operating profit	**110.8**	$ 119.6	$ 157.2
% of sales	**3.3%**	3.4%	3.7%

Sales in our International Division in U.S. dollars decreased 5% in 2010, 16% in 2009 and increased 1% in 2008. Local currency sales decreased 2% in 2010, 9% in 2009 and 2% in 2008. The sales in each of the three years presented were adversely impacted by the global economic climate. Sales in the contract business in local currencies increased 1% in 2010 and declined 8% in 2009. Growth in the small- to medium-sized business customers and large national account customers offset softness in the public sector business that resulted from various governmental austerity programs enacted throughout the year. The 2009 decrease reflects impacts from larger businesses decreasing their workforces and their discretionary spending on office supplies. Local currency sales in the direct business declined 5% and 11% in 2010 and 2009, respectively. The trend reflects some improvements in sales of higher priced items such as furniture and technology. We continue to focus on increasing the number of customer transactions. Sales in the retail channel increased after considering the impact of store closings in Japan, begun in 2009 and completed in early 2010, as well as the fourth quarter 2010 transaction related to our stores in Israel discussed below.

Division operating profit totaled approximately $111 million in 2010, $120 million in 2009 and $157 million in 2008. Included in Division operating profit for 2010 were charges of approximately $23 million from the sale of operating subsidiaries in Israel and Japan, as well as facility closure and severance costs associated with consolidation arrangements in Europe. The subsidiary sales reflect the company s decision to change its investment model in those countries from direct operating to license arrangements. The respective buyers of the entities will operate under the Office Depot name and the company will continue to generate cash flows from these entities from licensing fees and product sales. The company may continue efforts to improve financial results through efficiencies and operational consolidation during 2011. Should such activity be undertaken, additional charges could result.

The decreases in Division operating profit in 2010, 2009 and 2008 were also impacted by the flow through effects of lower sales levels. The operating profit comparison of 2010 to 2009 also reflects higher vendor rebates in 2009 and higher product costs in 2010 that were not passed on to customers, partially offset by lower variable pay. For 2009, the negative flow through impact was partially offset by lower operating expenses, including a decrease in distribution costs as well as lower payroll and advertising expenses. Other factors, including a shift to lower margin customers and cost increases that could not be fully passed on to our customers, negatively impacted Division operating profit in both 2009 and 2008. During 2008, we also recorded a non-cash gain of approximately $13 million related to the curtailment of a defined benefit pension plan in the UK and non-cash impairment charges of approximately $11 million related to our customer list intangible assets.

For U.S. reporting, the International Division s sales are translated into U.S. dollars at average exchange rates experienced during the year. The Division s reported sales were negatively impacted by approximately $80 million in 2010, $305 million in 2009 and positively impacted by $127 million in 2008 from changes in foreign currency exchange rates. Division operating profit was negatively impacted by $3 million in 2010, $6 million in 2009 and positively impacted by $2 million in 2008 from changes in foreign exchange rates. Internally, we analyze our international operations in terms of local currency performance to allow focus on operating trends and results.

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CORPORATE AND OTHER

Asset Impairments, Exit Costs and Other Charges

Each of our three operating segments has been adversely affected by the downturn in the global economy in recent years. The company has taken actions to adapt to the changing and increasingly competitive conditions including closing stores and distribution centers (DCs), consolidating functional activities and disposing of businesses and assets. During 2010, 2009 and 2008, we have recognized significant charges from reorganization efforts and asset impairments. The Charges recognized in 2009 and 2008 that related to a strategic review were managed at the corporate level and were excluded from measurement of Division operating profit.

In the fourth quarter of 2010, the company initiated additional activities to improve future operating performance, change the ownership structure of certain international investments and eliminate non-productive corporate assets. Specifically, the company wrote off approximately $51 million of Construction In Progress related to impairment of certain software applications. In the fourth quarter of 2010 it was determined that the company was no longer going to fund the continued development of this software and the software projects were abandoned. The charge is presented in Other asset impairments on the Consolidated Statements of Operations. Other charges recognized during 2010 have been included in Division operating profit or corporate general and administrative expenses, as appropriate.

The company expects to take additional actions during the coming years in an effort to increase efficiency and operating results. These actions could include combining, outsourcing or eliminating functions which could lead to additional charges when the relevant accounting criteria are met. These actions are still being considered.

A summary of the Charges recognized during 2009 and 2008 and the line item presentation of these amounts in our accompanying Consolidated Statements of Operations is as follows.

(Dollars in millions, except per share amounts)	2009	2008
Cost of goods sold and occupancy costs	$ 13	$ 16
Store and warehouse operating and selling expenses	188	52
Goodwill and trade name impairments		1,270
Other asset impairments	26	114
General and administrative expenses	26	17
Total pre-tax Charges	253	1,469
Income tax effect	(19)	(103)
After-tax impact	$ 234	$ 1,366
Per share impact	$ 0.86	$ 5.01

Of the $253 million of 2009 Charges, approximately $194 million either have or are expected to require cash settlement, including longer-term lease obligations that will require cash over multi-year lease terms.

The primary components of Charges include:

Goodwill and Trade Name Impairments During 2008, we recorded non-cash Charges of $1.2 billion to write down goodwill and $57 million related to the impairment of trade names. Our recoverability assessment of these non-amortizing intangible assets considered company-specific projections, assumptions about market participant views and the company s overall market capitalization around the testing period.

Retail Store Initiatives As part of the strategic review, we closed 126 stores in North America (six of which were closed in the fourth quarter of 2008 and the remainder in 2009) and 27 stores in Japan. The stores closed were underperforming or stores that were no longer a strategic fit for the company. The Charges totaled $122 million and $104 million in 2009 and 2008, respectively. The 2009 Charges were primarily related to lease

accruals, inventory write downs, severance expenses and other facility closure costs. The 2008 Charges related primarily to asset impairments, inventory write downs and lease accruals.

Supply Chain Initiatives During 2009, we closed five DCs and six crossdock facilities in North America and consolidated our DCs in Europe. Charges related to these actions totaled approximately $57 million in 2009 and related primarily to lease accruals, inventory write downs, severance expenses and other facility closure costs. The 2008 Charges totaled approximately $22 million and consisted primarily of accelerated depreciation, severance related costs and lease accruals.

Asset Sales and Sale-Leaseback Transactions As a result of the strategic review and to enhance liquidity, we entered into multiple sale and sale-leaseback transactions. Total proceeds from these transactions were approximately $150 million and are included in the investing section on our Consolidated Statement of Cash Flows. Losses on these transactions are included in the Charges and totaled approximately $22 million in 2009. Gains have been deferred and will reduce rent expense over the related leaseback periods.

Headcount Reductions and Other Restructuring Activities Severance and termination benefit costs associated with actions to centralize activities and eliminate geographic redundancies totaled approximately $22 million and $13 million during 2009 and 2008, respectively. During 2009, we also recorded Charges for contract terminations on certain leased assets totaling approximately $17 million and for other restructuring activities totaling approximately $7 million. Additionally, we recognized a non-cash loss of approximately $6 million in conjunction with the disposition of other assets during 2009. Charges for other restructuring activities in 2008 totaled approximately $60 million and related primarily to asset write downs and costs associated with the restructuring of our back office operations and call centers in Europe.

Although we do not expect to recognize new Charges under the 2009 or earlier programs, positive and negative adjustments to previously accrued amounts as well as accretion on discounted long-term accruals such as lease obligations will continue to impact our results in future periods. We currently estimate accretion of approximately $10 million for 2011 and declining amounts in subsequent periods. All such amortizations and settlements or adjustments to related accruals will be included in store and warehouse operating and selling expenses and recognized at the corporate level, outside of Division operating profit.

In addition to the Charges that relate to the strategic reviews, during 2008, we recognized other material charges because of the downturn in our business. Those charges include material asset impairments relating to stores we continue to operate, charges to impair amortizing customer relationship intangible assets, as well as an increase in our allowance for bad debts related to our private label credit card portfolio and certain other accounts receivable balances to reflect the economic downturn. As these charges are considered reflective of operating an ongoing business in difficult times, they were included in the 2008 Division operating results.

General and Administrative Expenses

Total general and administrative expenses (G&A) decreased to $659 million in 2010 from $723 million in 2009. The portion of G&A expenses considered directly or closely related to division activity is included in the measurement of Division operating profit. The company continues to evaluate G&A and other expense allocations across the Divisions and may refine methodologies in future periods. Other companies may charge more or less G&A expenses and other costs to their segments, and our results therefore may not be comparable to similarly titled measures used by other companies. The remainder of the total G&A expenses are considered corporate expenses. A breakdown of G&A is provided in the following table:

(Dollars in millions)	**2010**	2009	2008
Division G&A	**$ 342.2**	$ 361.7	$ 394.6
Corporate G&A	**316.6**	361.4	348.6
Total G&A	**658.8**	$ 723.1	$ 743.2
% of sales	**5.7%**	6.0%	5.1%

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Corporate G&A includes Charges of approximately $26 million and $17 million in 2009 and 2008, respectively. After considering these amounts, corporate G&A expenses decreased $19 million in 2010 and increased $4 million in 2009. The decrease in 2010 was driven by lower variable pay, legal fees and a litigation settlement, partially offset by approximately $13 million of compensation-related costs following the departure of our former CEO and higher software amortization. The change in 2009 primarily reflects increased depreciation expense and higher levels of performance-based variable pay. The increase in depreciation expense resulted primarily from the capital lease associated with our new corporate campus as well as the company s implementation of a new enterprise software system which was placed in service at the beginning of the third quarter of 2009. The increases were offset partially by reduction in legal and professional fees as well as lower payroll-related costs. Corporate G&A for 2009 also includes approximately $9 million from the effect of accelerated vesting of certain employee stock grants following approval of the redeemable preferred stock issuance.

Other Income and Expense

(Dollars in millions)	**2010**	2009	2008
Interest income	**$ 4.7**	$ 2.4	$ 10.0
Interest expense	**(58.5)**	(65.6)	(68.3)
Miscellaneous income, net	**34.5**	17.1	23.7

The increase in interest income during 2010 reflects approximately $2 million of interest received on a tax settlement during the year. The decrease in interest income from 2008 to 2009 resulted primarily from lower investment rates. The 2010 tax settlement also resulted in reversal of approximately $11 million of previously accrued interest expense, partially offset by lower capitalized interest in 2010 compared to 2009.

Our net miscellaneous income consists of our earnings of joint venture investments, gains and losses related to foreign exchange transactions, investment results from our deferred compensation plan and realized gains and impairments of other investments. The majority of miscellaneous income is attributable to equity in earnings from our joint venture in Mexico, Office Depot de Mexico. The increase in 2010 reflects a level of foreign currency and deferred compensation plan losses in 2009 that did not recur in 2010 and 2010 receipts on investments previously impaired. The decrease in 2009 primarily reflects lower joint venture earnings resulting from changes in foreign currency exchange rates, as well as foreign currency losses.

Income Taxes

(Dollars in millions)	**2010**	2009	2008
Income tax expense (benefit)	**$ (90.0)**	$ 287.6	$ (98.6)
Effective income tax rate*	**159%**	(92)%	6%

* Income taxes as a percentage of earnings (loss) before income taxes.

The company experienced significant volatility in its effective tax rate throughout 2010 and 2009, in large part because of valuation allowances recorded during 2009 that limit the impact of deferred tax accounting. The 159% effective tax rate for 2010 includes approximately $30 million from favorable tax settlements, $10 million from the release of a European valuation allowance, $9 million tax benefits on the disposition of operating entities in Israel and Japan, as well as a tax accounting method change for repairs and maintenance expenses and the impact of bonus depreciation rules enacted during the fourth quarter of 2010. In addition to the tax settlement and other discrete items, the company recognized significant tax benefits from deductions that will be carried back to an earlier tax period. Because the company has valuation allowances in that jurisdiction, these carryback items impact the 2010 effective tax rate, and are unusual, but will be received as a tax refund. Carryback opportunities will not exist in this jurisdiction for future periods and the company will not be able to recognize originating deferred tax assets until the related valuation allowances are removed. This accounting will likely adversely impact future effective tax rates.

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Valuation allowances totaling $321.6 million were recognized during 2009, with $279.1 million related to domestic deferred tax assets and $42.5 million related to foreign deferred tax assets. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. An accumulation of recent pre-tax losses is considered strong negative evidence in that evaluation. Because of the downturn in our performance during this recessionary period, as well as the significant restructuring activities and charges we have taken in response, during the third quarter of 2009 the cumulative pre-tax results for the past 36 months of certain taxing jurisdictions reached or nearly reached loss positions. In our view, the recoverability of those deferred tax assets could no longer meet the more likely than not standard that applies to such assets.

Significant judgment is also required in determining when it is appropriate to release a previously established valuation allowance. During 2010, one jurisdiction in Europe reached sufficient positive performance and we had reasonable projections that positive performance would continue such that the valuation allowance established in 2008 could be reversed. While it is possible that other European entities could accumulate positive evidence that would support reversing some valuation allowances during 2011, it is not expected that the domestic valuation allowances will be adjusted during 2011. The short-term consequence of being unable to record deferred tax benefits will continue to cause our effective tax rate to be volatile, possibly changing significantly from period to period.

The 2008 effective tax rate reflects the largely non-deductible nature of the goodwill impairment charge and non-deductible foreign interest, as well as a $47 million increase in deferred tax asset valuation allowances in certain jurisdictions.

As discussed in Note G to the Notes to the Consolidated Financial Statements, the company maintains accruals for uncertain tax positions and is subject to examinations by various taxing authorities that are expected to be completed over several years. It is reasonably possible that certain of these audits will close within the next 12 months, which could result in a decrease of as much as $87.4 million or an increase of as much as $14.3 million to our accrued uncertain tax positions. Additionally, we anticipate that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits, however, an estimate of such changes cannot reasonably be made.

In general, the effective tax rate in future periods can be affected by variability in our mix of domestic and foreign income, the variance of actual results to projected results, utilization of deferred tax assets, the statutory tax rates in various jurisdictions, changes in the rules related to accounting for income taxes, outcomes from tax audits that rent-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">

94.6

%

48,162,000

65.96

31 West 52nd Street

Sixth Ave./Rock Center

64.2

%

786,647

100.0

%

57,372,000

75.98

900 Third Avenue

East Side

100.0

%

596,270

94.9

%

40,808,000

73.14

712 Fifth Avenue

Madison/Fifth Avenue

50.0

%

543,341

99.0

%

55,266,000

104.91

Subtotal / Weighted Average

7,152,207

94.4

%

463,051,000

74.34

Washington, D.C.:

Waterview

Rosslyn, VA

100.0

%

647,243

98.9

%

31,295,000

49.80

425 Eye Street

East End

100.0

%

380,090

88.9

%

14,861,000

45.79

2099 Pennsylvania Avenue

CBD

100.0

%

208,636

62.0

%

4,865,000

73.17

1899 Pennsylvania Avenue

CBD

100.0

%

192,481

86.5

%

10,785,000

80.59

Liberty Place

East End

100.0

%

174,205

85.2

%

6,354,000

66.43

Subtotal / Weighted Average

1,602,655

88.8

%

68,160,000

54.58

San Francisco:

One Market Plaza

South Financial District

49.0

%

1,611,125

96.8

%

72,569,000

57.74

Total / Weighted Average

10,365,987

93.9

%

$

603,780,000

$

69.13

(1) Represents the remeasured square feet, which includes an aggregate of 203,511 square feet of either REBNY or BOMA remeasurement adjustments that are not reflected in current leases.
(2) Annualized rent represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.
(3) Excludes square feet and revenue from parking, storage, theater, signage and roof space.

Tenant Diversification

As of December 31, 2014, our properties were leased to a diverse base of tenants. Our tenants represent a broad array of industries, including financial services, media and entertainment, consulting, legal and other professional services, technology and federal government agencies. The following table sets forth information regarding the 10 largest tenants in our portfolio based on annualized rent as of December 31, 2014.

Tenant	Lease Expiration[1]	Square Feet Leased	% of Square Feet	Annualized Rent [1] Amount	Per Square Foot	% of Annualized Rent
The Corporate Executive Board Company	Jan-2028	625,062	6.0 %	$31,045,000	$49.67	5.0 %
Barclays Capital, Inc.	Dec-2020	497,418	4.8 %	28,924,000	58.15	4.7 %
Allianz Global Investors, LP	Jan-2031 [2]	326,457 [2]	3.2 %	26,028,000	79.73	4.2 %
Credit Agricole Corporate & Investment Bank	Feb-2023	313,879	3.0 %	25,219,000	80.35	4.1 %
Clifford Chance, LLP	Jun-2024	328,992	3.2 %	24,760,000	75.26	4.0 %
Commerzbank AG	May-2016	287,535	2.8 %	24,260,000	84.37	3.9 %
Kasowitz Benson Torres & Friedman, LLP	Mar-2037 [3]	302,213 [3]	2.9 %	18,799,000	62.20	3.1 %
Deloitte & Touche, LLP	Mar-2016	212,052	2.1 %	16,619,000	78.37	2.7 %
WMG Acquisition Corp. (Warner Music Group)	Jul-2029	293,487	2.8 %	16,052,000	54.69	2.6 %
Chadbourne & Parke, LLP	Sep-2034	203,102	2.0 %	15,836,000	77.97	2.6 %

[1] Annualized rent represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.
[2] 5,546 of the square feet leased expires in December 2018.
[3] 100,422 of the square feet leased expires in November 2015.

Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our portfolio based on annualized rent as of December 31, 2014.

Industry	Square Feet Leased	% of Total Square Feet	Annualized Rent [1]	% of Annualized Rent
Financial Services	3,973,431	38.3 %	$294,258,000	47.8 %
Legal Services	1,755,571	16.9 %	126,338,000	20.5 %
Media	794,301	7.7 %	48,059,000	7.8 %

Government	316,700	3.1	%	14,630,000	2.4 %
Retail	144,519	1.4	%	13,119,000	2.1 %
Real Estate	135,850	1.3	%	10,820,000	1.8 %
Business Services and Communications	166,291	1.6	%	10,132,000	1.6 %
Software	168,186	1.6	%	8,952,000	1.5 %
Other	2,911,138	28.1	%	89,520,000	14.5 %

(1) Annualized rent represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

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Lease Expirations

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2014 for each of the 10 calendar years beginning with the year ending December 31, 2015, at the properties in our portfolio. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Square Feet of Expiring Leases	Annualized Rent [1] Amount	Per Square Foot [2]	% of Annualized Rent
Month to Month	7,089	$653,000	$77.15	0.1%
1Q 2015	72,213	4,563,000	63.44	0.7%
2Q 2015	134,142	9,103,000	69.72	1.4%
3Q 2015	246,754	19,435,000	78.87	3.0%
4Q 2015	212,212	13,725,000	62.39	2.1%
Total 2015	665,321	46,826,000	70.06	7.2%
2016	973,905	71,333,000	72.49	11.0%
2017	433,258	33,986,000	79.02	5.3%
2018	446,107	33,453,000	75.22	5.2%
2019	387,441	28,813,000	74.59	4.5%
2020	1,110,469	67,524,000	63.14	10.4%
2021	842,543	49,708,000	60.98	7.7%
2022	295,130	16,668,000	86.46	2.6%
2023	630,081	52,018,000	82.85	8.0%
2024	632,281	48,393,000	76.96	7.5%
Thereafter	3,088,545	197,896,000	63.39	30.6%

(1) Annualized rent represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

(2) Excludes square feet and revenue from parking, storage, theater, signage and roof space.

Our portfolio contains a number of large buildings in select central business district submarkets, which often involve large users occupying multiple floors for relatively long terms. Accordingly, the re-lease or renewal of one or more large leases may have a disproportionate positive or negative impact on average base rent, tenant improvement and leasing commission costs in a given period. Tenant improvement costs include expenditures for general improvements related to installing a tenant. Leasing commission costs are similarly subject to significant fluctuations depending upon the anticipated revenue to be received under the leases and the length of leases being signed. Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual properties.

As of December 31, 2014, the vacancy rate of our portfolio was 6.1%. In addition approximately 665,321 square feet, or 6.4% of square footage of our portfolio is scheduled to expire during the year ending December 31, 2015, which represents approximately 7.2% of our annualized rent.

Real Estate Fund Investments

We have an investment management business, where we serve as the general partner of real estate funds for institutional investors and high net-worth individuals. The following is a summary of our ownership in these funds and the funds ownership in the underlying investments.

Property Funds

The purpose of the Property Funds is to invest in office buildings and related facilities primarily in New York City, Washington, D.C. and San Francisco. As of December 31, 2014, the Property Funds were 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”). The following is a summary of the investments of our Property Funds.

		As of December 31, 2014		
	% Ownership	60 Wall Street	One Market Plaza	50 Beale Street
Fund II	10.0 %	46.3 %	-	-
Fund III	3.1 %	16.0 %	2.0 %	-
Fund VII [1]	7.2 %	-	-	41.1 %
Fund VII-H	7.2 %	-	-	1.7 %
Total Property Funds		62.3 %	2.0 %	42.8 %
Other Investors		37.7 %	98.0 % [2]	57.2 %
Total		100.0 %	100.0 %	100.0 %

[1] As of December 31, 2014, Fund VII had an aggregate of $57.6 million of committed capital that had not yet been invested.

[2] Includes a 49% direct ownership interest held by us.

Alternative Investment Funds

The purpose of the Alternative Investment Funds is to invest primarily in real estate related debt and preferred equity investments. As of December 31, 2014, the Alternative Investment Funds were comprised of (i) Paramount Group Real Estate Special Situations Fund, L.P. (“PGRESS”), (ii) Paramount Group Real Estate Special Situations Fund-H, L.P. (“PGRESS-H”), (iii) Paramount Group Real Estate Special Situations Fund-A, L.P. (“PGRESS-A”), and (iv) Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”), which had an aggregate of $434,000,000 of committed capital that had not yet been invested. The following is a summary of the investments of our Alternative Investment Funds.

26 Broadway

In December 2014, Fund VIII made a $50,000,000 mezzanine loan, of which $46,000,000 was funded at closing. The loan is secured by the equity interests in 26 Broadway, an 836,000 square foot office building located in the financial district of New York. The loan bears interest at 8.25% and matures in January 2022. The loan is subordinate to $220,000,000 of other debt.

470 Vanderbilt Avenue

In February 2014, PGRESS, PGRESS-A and PGRESS-H (collectively referred to as the “PGRESS Funds”) acquired a $33,750,000 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 650,000 square foot office building located in Brooklyn, New York. The preferred equity has a dividend rate of 10.25%, of which 8.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in February 2019.

2 Herald Square

The PGRESS Funds own a $17,500,000 preferred equity investment in a partnership that owns 2 Herald Square, a 369,000 square foot office and retail property in New York, New York. The preferred equity has a dividend rate of 10.3%, of which 7.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in April 2017 and has two one-year extension options.

One Court Square

PGRESS and PGRESS-H own a combined 28.0% interest in a $125,000,000 preferred equity investment in a partnership that owns One Court Square, a 1.5 million square foot office building located in Long Island City, New York. The preferred equity has a dividend rate of 15.0%, of which 9.5% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in September 2015 and has a one-year extension option.

Residential Development Fund

The purpose of the Residential Development Fund (“Residential Fund”) is to construct a multifamily residential project in San Francisco. As of December 31, 2014, the Residential Fund had an aggregate of $135,600,000 of committed capital, of which $75,600,000 was invested.

Other

60 Wall Street - Option Agreement

60 Wall Street is a 47-story, 1.6 million square foot Class-A office building located steps from the New York Stock Exchange in the heart of New York’s financial district. It features a two-story retail arcade and enclosed park on the ground floor and serves as the American headquarters of Deutsche Bank. The property is 100% net leased to Deutsche Bank through 2022 and Deutsche Bank has five five-year renewal options to extend the lease term through 2047 and a contraction option on up to 174,420 rentable square feet exercisable between June 2017 and June 2018.

In connection with the Formation Transactions, we entered into an option agreement with each of Fund II and Fund III pursuant to which we will have the right to acquire their interests in the joint venture that owns 60 Wall Street. We will have the right to acquire these interests at any time for up to two years after the completion of the Offering (i.e., through November 2016) at a purchase price based on the fair market value of the property, subject to a minimum floor price, and the net value of the other assets and liabilities of the joint venture on the date on which the option is exercised. In order to determine the fair market value of the property, we will obtain three independent appraisals from nationally recognized valuation firms and the fair market value will be deemed to be the average of the two highest appraisals; provided that the fair market value will be subject to a minimum floor price equal to 95% of the appraised value of the property as of December 31, 2013. We will have the right to acquire these interests for either cash or shares of our common stock, based on the then current market value. Our acquisition of these interests upon exercise of the option will be subject to Fund II and Fund III obtaining all applicable consents or waivers, including the consent or waiver of any lenders or tenants to the extent required. In addition, the purchase price will be increased to the extent we enter into any new lease or lease amendment at the property within 90 days after the closing that would have resulted in the fair market value of the property increasing by more than one percent if such lease or lease amendment had been in place as of the date of the appraisals used to determine the fair market value of the property. If we were to exercise the option, we have agreed to provide our joint venture partner with the right to "tag-along" and transfer their interests in the joint venture that owns 60 Wall Street at a purchase price based on the same valuation procedures pursuant to which we would acquire each of Fund II's and Fund III's interests.

If we were to exercise the option and our joint venture partner did not exercise its right to tag-along, we would continue to act as the general partner of the joint venture that is in charge of the property's day-to-day operations. In the event we desire to transfer, sell or assign any portion of our interest in the joint venture to a third party, our joint venture partner will have the right to elect to purchase our interests subject to certain conditions. The partnership agreement contains a buy-sell provision, under which at any time, we or the joint venture partner may deliver a notice designating the amount that we or the joint venture partner determines the market value of the property to be. The party receiving a buy-sell notice will have the right to either purchase the entire partnership interest of the partner delivering the buy-sell notice, or sell its entire partnership interest to the partner delivering the buy-sell notice, in each case for cash at a price equal to the amount the selling partner would have received if the property had been sold for the amount listed in the notice (with financing breakage costs and transfer taxes to be apportioned between the partners in accordance with their percentage interests in the joint venture).

718 Fifth Avenue - Put Right

We manage 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. The property is one block south of one of the world’s most exclusive commercial intersections (57th Street and Fifth Avenue). Rockefeller Center and Central Park are within walking distance, as are numerous luxury hotels, museums and retail stores, including the Plaza Hotel, the Museum of Modern Art, FAO Schwarz, Bergdorf Goodman and Saks Fifth Avenue. The property serves as the flagship store of, Harry Winston, a high-end American luxury jeweler and producer of Swiss timepieces owned by The Swatch Group.

Prior to the Formation Transactions, an affiliate of our Predecessor owned a 25.0% interest in 718 Fifth Avenue (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 the four-year anniversary of the sale of its interest in 718 Fifth Avenue upon 12 months written notice with the actual purchase occurring no earlier than the five-year anniversary of the sale of its interest in 718 Fifth Avenue. 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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol PGRE. Our common stock began trading on the NYSE on November 19, 2014. As a result, we have not set forth quarterly information with respect to the high and low closing sales prices of our common stock and dividends declared on our common stock for the two most recent fiscal years. The table below sets forth the high and low sales prices of our common stock and dividends for the period from November 19, 2014 through December 31, 2014:

Quarter Ended	High	Low	Dividends per share of common stock
December 31, 2014	$19.68	$17.49	$ 0.00

As of December 31, 2014, there were approximately 40 registered holders of record of our common stock.

Dividends

In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to shareholders. We intend to pay dividends on a quarterly basis to holders of our common stock. Any dividend distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors; including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available therefore and will be dependent upon a number of factors, including restrictions under applicable law, the capital requirements of our company and the distribution requirements necessary to maintain our qualification as a REIT. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of this Annual Report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect our ability to make distributions to our shareholders.

On February 27, 2015, we declared a regular quarterly cash dividend of $0.039 per share of common stock for the 38 day period in the fourth quarter ended December 31, 2014, during which we were a public company. The dividend is payable on March 27, 2015 to stockholders of record as of the close of business on March 11, 2015.

On February 27, 2015, we also declared a regular quarterly cash dividend of $0.095 per share of common stock for the first quarter ending March 31, 2015 (an indicated annual rate of $0.38 per common share). The dividend is payable on March 30, 2015 to stockholders of record as of the close of business on March 12, 2015.

Performance Graph

The following graph is a comparison of the cumulative return of our common stock, the Standard & Poor’s 500 Index (the “S&P 500 Index”) and the National Association of Real Estate Investment Trusts’ (“NAREIT”) All Equity Index (the “All Equity Index”). The graph assumes that $100 was invested on November 19, 2014 (the first trading day of our common stock) in our common stock, the S&P 500 Index and the All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our stock will continue in line with the same or similar trends depicted in the graph below.

	November 19, 2014	December 31, 2014
Paramount	$ 100.00	$ 102.26
S&P 500 Index	100.00	100.72
All Equity Index	100.00	103.53

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

Sales of Unregistered Securities

On May 12, 2014, we issued 1,000 shares of our common stock in connection with the initial capitalization of our company for an aggregate purchase price of $1,000. The issuance of such shares was effected in reliance upon an exemption from registration provided by Section 4(a)(2) of the Securities Act.

Use of Proceeds

On November 18, 2014, the SEC declared effective our registration statement on Form S-11, as amended (File No. 333-198392) (the "Registration Statement"), for the Offering. We registered the offering and sale of 131,000,000 shares of our common stock, including 19,650,000 shares of common stock to be sold to the underwriters pursuant to their option to purchase additional shares. On November 24, 2014, we completed the offering of 150,650,000 shares of common stock, which included the full exercise of the underwriters' option to purchase additional shares, at a price of $17.50 per share for an aggregate offering price of approximately $2.6 billion. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC acted as active joint book-running managers and Deutsche Bank Securities Inc. also acted as a book-running manager of the Offering.

In connection with the Offering, we received net proceeds of approximately $2.5 billion, after deducting the underwriters' discounts and commissions of approximately $106.9 million and offering expenses of approximately $31.3 million. All of the foregoing underwriting discounts and expenses were direct or indirect payments to persons other than: (i) our directors, officers or any of their associates; (ii) persons owning 10 percent or more of our shares of common stock; or (iii) our affiliates. We contributed the proceeds from the Offering to the Operating Partnership, which used them to repay outstanding indebtedness and any applicable prepayment costs, exit fees, defeasance costs and settlement of interest rate swap liabilities associated with such repayment, to pay cash consideration in connection with the Formation Transactions and for general corporate purposes.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes certain information about our equity compensation plans as of December 31, 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance

		warrants and rights	under equity compensation plans (excluding securities reflected in the first column of this table)[2]
Equity compensation plans approved by stockholders	6,442,856 [1]	$ 17.50	15,501,430
Equity compensation plans not approved by stockholders			
Total	6,442,856	$ 17.50	15,501,430

[1] Includes an aggregate of 885,713 restricted Operating Partnership Units that were granted pursuant to our 2014 Equity Incentive Plan (the “Plan”) and 4,057,143 restricted Operating Partnership units that were granted as one-time Founders Grants, that were granted outside of the Plan, both of which do not have an exercise price.

[2] Based on awards being granted as "Full Value Awards," as defined in the Plan. If we were to grant "Not Full Value Awards", as defined in the Plan, the number of securities remaining available for future issuance would be 31,002,860.

Recent Purchases of Equity Securities

None

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ITEM 6. SELECTED FINANCIAL DATA

Since the assets that we acquired from our Predecessor are no longer held by funds which qualify for investment company accounting, we account for these assets following the Formation Transactions using consolidated historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from the combined consolidated financial statements of our Predecessor. The following table sets forth selected financial and operating data for the period from November 24, 2014 to December 31, 2014 and as of the end of such period. This data should be read in conjunction with the combined consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K. This data may not be comparable to, or indicative of, future operating results.

(Amounts in thousands, except per share amounts)	The Company Period from November 24, 2014 to December 31, 2014	
REVENUES:		
Rental income	$ 57,465	
Tenant reimbursement income	5,865	
Fee and other income	2,805	
Total revenues	66,135	
EXPENSES:		
Operating	26,011	
Depreciation and amortization	34,481	
General and administrative	2,207	
Total expenses	62,699	
Operating income	3,436	
Income from real estate fund investments	1,412	
Income from partially owned entities	938	
Unrealized gain on interest rate swaps	15,084	
Interest and other loss, net	(179	)
Interest and debt expense	(43,743	)
Acquisition, transaction and formation related costs	(143,437	)
Gain on consolidation of a partially owned entity	239,716	
Net income before income taxes	73,227	
Income tax expense	(505	)
Net income	72,722	
Less net income attributable to noncontrolling interests:		
Joint ventures and funds	(1,488	)
Operating Partnership	(13,926	)
Net income attributable to Paramount Group, Inc.	$ 57,308	
Per Share Data:		
Net income per common share - basic	$ 0.27	
Net income per common share - diluted	$ 0.27	
Dividends per common share	$ -	

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(Amounts in thousands)	The Company Period from November 24, 2014 through December 31, 2014
Balance Sheet Data (as of end of period):	
Total assets	$9,030,441
Rental property, at cost	7,530,239
Accumulated depreciation and amortization	(81,050)
Debt	2,852,287
Total equity	5,554,953
Other Data:	
Funds from operations attributable to Paramount Group, Inc. ("FFO") [1]	$82,425
Core funds from operations attributable to Paramount Group, Inc. ("Core FFO") [2]	16,100

(1) FFO is a supplemental measure of our performance. We present FFO in accordance with the definition adopted by 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, depreciation and amortization expense from real estate assets, including the pro rata 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. For a reconciliation of net income to FFO see page 64.

(2) 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 the acquisition, transaction and formation related costs, the unrealized gains or losses on interest rate swaps 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. For a reconciliation of net income to Core FFO see page 64.

The following table sets forth selected financial and operating data of our Predecessor for the period from January 1, 2014 to November 23, 2014 and the years ended December 31, 2013, 2012, 2011 and 2010 and as of the end of such period and years.

	The Predecessor				
	Period from January 1, 2014 to November 23, 2014	Year Ended December 31,			
(Amounts in thousands)		2013	2012	2011	2010
REVENUES:					
Rental income	$30,208	$30,406	$29,773	$29,187	$28,139
Tenant reimbursement income	1,646	1,821	1,543	1,004	339
Distributions from real estate fund investments	17,083	29,184	31,326	15,128	13,368
Realized and unrealized gains, net	129,354	332,053	161,199	533,819	228,265
Fee and other income	49,098	26,426	22,974	26,802	24,754
Total revenues	227,389	419,890	246,815	605,940	294,865
EXPENSES:					
Operating	15,862	16,195	15,402	14,656	9,035
Depreciation and amortization	10,203	10,582	10,104	10,701	10,703
General and administrative	30,912	33,504	28,374	25,556	32,789
Profit sharing compensation	12,041	23,385	17,554	78,354	11,399
Other	7,974	4,633	6,569	5,312	1,498
Total expenses	76,992	88,299	78,003	134,579	65,424
Operating income	150,397	331,591	168,812	471,361	229,441
Income from partially owned entities	4,241	1,062	3,852	5,448	2,896
Unrealized (loss) gain on interest rate swaps	(673)	1,615	6,969	(273)	518
Interest and other income, net	2,479	9,407	4,431	1,887	10,063
Interest and debt expense	(28,585)	(29,807)	(37,342)	(34,497)	(34,298)
Net income before income taxes	127,859	313,868	146,722	443,926	208,620
Income tax expense	(18,461)	(11,029)	(6,984)	(42,973)	(5,619)
Net income	109,398	302,839	139,738	400,953	203,001
Net income attributable to noncontrolling interests	(87,888)	(286,325)	(137,443)	(347,075)	(196,390)
Net income attributable to the Predecessor	$21,510	$16,514	$2,295	$53,878	$6,611

	The Predecessor			
	Year Ended December 31,			
(Amounts in thousands)	2013	2012	2011	2010
Balance Sheet Data (as of end of period):				
Total assets	$2,992,691	$2,611,727	$2,366,888	$1,595,864
Rental property, at cost	414,998	414,855	416,864	416,584
Accumulated depreciation and amortization	(57,689)	(48,425)	(39,637)	(30,247)
Debt	499,859	517,494	532,305	496,950
Total equity	2,025,444	1,738,226	1,484,813	904,752

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ITEM 7. 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 and the combined consolidated financial statements of that of our Predecessor, including the related notes included therein.

Overview

We are a fully-integrated REIT focused on owning, operating and managing high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of December 31, 2014, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 93.9% leased.

We were incorporated in Maryland as a corporation on April 14, 2014 to continue the business of our Predecessor and did not have any meaningful operations until the completion of the Formation Transactions and the Offering.

In connection with the Offering, we completed the following transactions:

- Issued a total of 150,650,000 common shares at a public offering price of $17.50 per share;
- Acquired, through the Formation Transactions, substantially all of the assets of our Predecessor and the assets of the Property Funds, as defined, that it controlled, as well as the interests of unaffiliated third parties in certain properties, for a combination of common shares, common units and cash, and;
- Entered into a $1.0 billion senior unsecured revolving credit facility, with an accordion feature to increase the availability to $1.25 billion under certain circumstances.

We commenced our operations on November 24, 2014, upon completion of the Offering and related Formation Transactions. We conduct our business through, and substantially all of our interests in properties are held by the Operating Partnership. We are the sole general partner of, and owned approximately 80.4% of the Operating Partnership as of December 31, 2014. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S federal income tax purposes commencing with our taxable year ended December 31, 2014.

Formation Transactions

We entered into a series of Formation Transactions (the "Formation Transactions"), concurrently with the completion of the Offering, pursuant to which we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds that it controlled, other than their interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas.

Our Predecessor

Our Predecessor is not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) (collectively, the “Funds”) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia, and (iii) three partially owned properties in New York, NY.

Below is a summary of the 15 private equity real estate funds controlled by our Predecessor.

The following funds controlled by our Predecessor (collectively referred to herein as the "Property Funds"), were formed to invest in office buildings and related facilities throughout the United States, particularly in New York City, Washington, D.C. and San Francisco:

- Paramount Group Real Estate Fund I, L.P. ("Fund I")
- Paramount Group Real Estate Fund II, L.P. ("Fund II")
- Paramount Group Real Estate Fund III, L.P. ("Fund III")
- Paramount Group Real Estate Fund IV, L.P. ("Fund IV")
- PGREF IV Parallel Fund (Cayman), L.P. ("Fund IV Cayman")
- Paramount Group Real Estate Fund V (CIP), L.P. ("Fund V CIP")
- Paramount Group Real Estate Fund V (Core), L.P. ("Fund V Core")
- PGREF V (Core) Parallel Fund (Cayman), L.P. ("Fund V Cayman")
- Paramount Group Real Estate Fund VII, LP ("Fund VII")
- Paramount Group Real Estate Fund VII-H, LP ("Fund VII-H")

The following fund was formed to acquire, develop and manage the residential development project at 75 Howard Street:

- Paramount Group Residential Development Fund, LP ("Residential Fund")

The following funds (collectively referred to herein as the "Alternative Investment Funds") were formed to invest in real estate related assets including public/private debt and/or equity interests in assets, companies, or other structures involved directly or indirectly in real estate and/or originate, acquire, or issue loans to public/private real estate companies:

- Paramount Group Real Estate Special Situations Fund, L.P. ("PGRESS")
- Paramount Group Real Estate Special Situations Fund–H, L.P. ("PGRESS-H")
- Paramount Group Real Estate Special Situations Fund–A, L.P. ("PGRESS-A")
- Paramount Group Real Estate Fund VIII, L.P. ("Fund VIII")

The Property Funds and Residential Fund owned interests in the following properties:

- 1633 Broadway, New York, NY
- 60 Wall Street, New York, NY
- 900 Third Avenue, New York, NY
- 31 West 52nd Street, New York, NY
- 1301 Avenue of the Americas, New York, NY
- One Market Plaza, San Francisco, CA
- 50 Beale Street, San Francisco, CA
- 75 Howard Street, San Francisco, CA
- Liberty Place, Washington, D.C.
- 1899 Pennsylvania Avenue, Washington, D.C.

- 2099 Pennsylvania Avenue, Washington, D.C.
- 425 Eye Street, Washington, D.C.

As discussed above, in connection with the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds that it controlled, other than its interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas.

The following is a summary of the properties acquired from the Property Funds, including our ownership percentage and the basis of accounting prior to and subsequent to the completion of the Offering and Formation Transactions.

	Pre-Formation Transactions		Post-Formation Transactions	
Property	Ownership	Basis of Accounting	Ownership	Basis of Accounting
1633 Broadway	75.5%	Investment Company	100.0% (1)	Historical Cost - Consolidated
1301 Avenue of the Americas	75.5%	Investment Company	100.0% (2)	Historical Cost - Consolidated
31 West 52nd Street	62.3%	Investment Company	64.2% (3)	Historical Cost - Consolidated
900 Third Avenue	100.0%	Investment Company/Equity Method	100.0% (4)	Historical Cost - Consolidated
Liberty Place	100.0%	Investment Company	100.0%	Historical Cost - Consolidated
425 Eye Street	100.0%	Investment Company	100.0%	Historical Cost - Consolidated
1899 Pennsylvania Avenue	100.0%	Investment Company	100.0%	Historical Cost - Consolidated
2099 Pennsylvania Avenue	100.0%	Investment Company	100.0%	Historical Cost - Consolidated
One Market Plaza	49.0%	Investment Company	49.0% (5)	Historical Cost - Consolidated

(1) As part of the Formation Transactions, we acquired the remaining 24.5% interest we did not previously own, for $182,834,000 of which $108,385,000 was in cash and $74,449,000 was in common shares.

(2) As part of the Formation Transactions, we acquired the remaining 24.5% interest we did not previously own, for $86,960,000 in cash.

(3) As part of the Formation Transactions, we acquired a 1.9% interest from one of our joint venture partners, for $4,950,000 in common units.

(4) Prior to the Formation Transactions, our Predecessor owned a direct 11.8% interest in the property and the remaining 88.2% interest was held by the Property Funds that our Predecessor controlled.

(5) In addition to our direct 49.0% interest in the property, we are also the general partner of a limited partnership that holds a 2.0% interest in the property. As a result, we have a 51.0% voting interest and control in the property; accordingly, we consolidate the operations of the property into our consolidated financial statements.

The following is a summary of the properties previously owned by our Predecessor that were not held through funds, including our ownership percentage and the basis of accounting prior to and subsequent to the completion of the Offering and Formation Transactions.

Property	Pre-Formation Transactions Ownership	Pre-Formation Transactions Basis of Accounting	Post-Formation Transactions Ownership	Post-Formation Transactions Basis of Accounting
1325 Avenue of the Americas	50.0%	Historical Cost - Equity Method	100.0% [(1)]	Historical Cost - Consolidated
712 Fifth Avenue	50.0%	Historical Cost - Equity Method	50.0%	Historical Cost - Equity Method
Waterview	100.0%	Historical Cost - Consolidated	100.0%	Historical Cost - Consolidated

(1) As part of the Formation Transactions, we acquired the remaining 50.0% interest we did not previously own for $130,381,000 in common shares. This transaction was accounted for as a step acquisition in which we obtained control and consolidated the property.

The acquisition of the above properties were accounted for as transactions among entities under common control. However, since the assets that we acquired from our Predecessor are no longer held by funds which qualify for investment company accounting, we account for these assets following the Formation Transactions using consolidated historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor.

Critical Accounting Policies

Rental Property

Rental property is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. We amortize acquired above and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of depreciation and amortization.

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property’s carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our combined consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Variable Interest Entities and Investments in Partially-Owned Entities

We consolidate variable interest entities ("VIEs") in which we are considered to be the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or that the holders of the equity investment at risk do not have a controlling financial interest. The primary beneficiary is defined by the entity having both of the following characteristics: (i) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and (ii) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. For joint ventures that are not VIEs, we consolidate entities for which we have significant decision making control over the joint ventures' operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment, estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the joint venture, if applicable.

We account for investments under the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. Investments accounted for under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for deferred rent receivable. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

Income Taxes

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2014. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on our undistributed taxable income.

Revenue Recognition

Rental Income

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to “deferred rent receivable.” Rental income also includes the amortization of acquired above and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the property. This revenue is accrued in the same period as the expenses are incurred.

Distribution Income

Distributions received from real estate fund investments made through the Funds are recognized as income in the combined consolidated financial statements to the extent that they result from the operations of the underlying investee entity. Distributions from investments that do not result from the operations of the underlying investee entity are considered a return of investment.

Fee and Other Income

Fee and other income includes management fees earned pursuant to contractual agreements. This revenue is recognized as the related services are performed. Fee and other income also includes lease termination fees.

Segment Reporting

Upon completion of the Offering and Formation Transactions, we acquired substantially all of the assets of our Predecessor and substantially all of the assets of the Property Funds that it controlled. Our business, post the Formation Transactions, is comprised of one reportable segment. We have determined that our properties have similar economic characteristics to be aggregated into one reportable segment (operating, leasing and managing office properties). Our determination was based primarily on our method of internal reporting.

Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds, and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment.

Recently Issued Accounting Literature

In June 2013, the FASB issued an update ("ASU 2013-08") Financial Services-Investment Companies to ASC Topic 946-Amendments to the Scope, Measurement, and Disclosure Requirements. ASU 2013-08 changes the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and determine whether it is an investment company. The amendments in ASU 2013-08 are effective prospectively for fiscal years beginning after December 15, 2013. Early adoption is prohibited. The adoption of ASU 2013-08 on January 1, 2014 did not have a material impact on our Predecessor's combined consolidated financial statements.

In April 2014, the FASB issued an update ("ASU 2014-08") Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity to ASC Topic 205, Presentation of Financial Statements and ASC Topic 360, Property Plant and Equipment. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, the ASU expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. The adoption of ASU 2014-08 on January 1, 2014 did not have a material impact on our Predecessor's combined consolidated financial statements.

In May 2014, the FASB issued an update ("ASU 2014-09") Revenue from Contracts with Customers. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued an update (“ASU 2014-12”) to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update (“ASU 2015-02”) Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

Results of Operations

As noted above, the acquisition of the properties from our Predecessor, were accounted for as transactions among entities under common control. However, since the assets that we acquired from our Predecessor are no longer held by funds which qualify for investment company accounting, we account for these assets following the Formation Transactions using consolidated historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor. The following pages summarize our consolidated results of operations for the period from November 24, 2014 to December 31, 2014 and the combined consolidated historical results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013.

Results of Operations – The Company – Period from November 24, 2014 to December 31, 2014

Rental Income

Rental income was $57,465,000 in the period from November 24, 2014 to December 31, 2014 and represents rental income from the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions.

Tenant Reimbursement Income

Tenant reimbursement income was $5,865,000 in the period from November 24, 2014 to December 31, 2014 and represents reimbursement income from tenants at the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions.

Fee and Other Income

Fee and other income was $2,805,000 in the period from November 24, 2014 to December 31, 2014 and is comprised of (i) $587,000 of property management fees, (ii) $510,000 of acquisition fees, (iii) $79,000 of construction and other fees and (iv) $1,629,000 of other income (primarily tenant payments for items such as after hour heating and cooling, freight elevator services and similar expenses).

Operating Expenses

Operating expenses were $26,011,000 in the period from November 24, 2014 to December 31, 2014 and represents the operating expenses of the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions.

Depreciation and Amortization

Depreciation and amortization was $34,481,000 in the period from November 24, 2014 to December 31, 2014 and represents depreciation and amortization on the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions.

General and Administrative Expenses

General and administrative expenses were $2,207,000 in the period from November 24, 2014 to December 31, 2014. General and administrative expenses include a reduction of $321,000 from the mark-to-market of investments in our deferred compensation plan, for which there is a corresponding decrease in “interest and other (loss) income.” Excluding the impact of the deferred compensation plan general and administrative expenses were $2,528,000 in the period from November 24, 2014 to December 31, 2014.

Income from Real Estate Fund Investments

Income from real estate fund investments was $1,412,000 in the period from November 24, 2014 to December 31, 2014, and represents income from the remaining private equity real estate funds that we consolidate.

Income from Partially Owned Entities

Income from partially owned entities was $938,000 in the period from November 24, 2014 to December 31, 2014 and represents our 50% share of the equity in net earnings of 712 Fifth Avenue.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was $15,084,000 in the period from November 24, 2014 to December 31, 2014.

Interest and Other Income (Loss), net

Interest and other income (loss), net was a loss of $179,000 for the period from November 24, 2014 to December 31, 2014. This amount includes a $321,000 loss from the mark-to-market of investments in our deferred compensation plan, for which there is a corresponding decrease in "general and administrative" expenses, excluding the impact of our deferred compensation plan, interest and other income was $142,000.

Interest and Debt Expense

Interest and debt expense was $43,743,000 in the period from November 24, 2014 to December 31, 2014 and represents interest cost on the properties that we consolidate using historical cost accounting upon completion of the Offering and Formation Transactions. Interest and debt expense also includes $25,717,000 of defeasance and debt breakage costs in connection with the repayment of debt upon completion of the Offering and Formation Transactions and $240,000 of amortization of deferred financing costs.

Acquisition, Transaction and Formation Related Costs

Acquisition, transaction and formation related costs were $143,437,000 in the period from November 24, 2014 to December 31, 2014 and includes (i) $71,000,000 of stock based compensation expense in connection with one-time founders' grants to executive officers and certain other employees, (ii) $51,306,000 of transfer taxes and (iii) $21,131,000 of accounting, legal and other professional fees incurred in connection with the Formation Transactions.

Gain on Consolidation of a Partially Owned Entity

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a 50.0% interest in a joint venture that owned 1325 Avenue of the Americas, which was accounted for under the equity method. The remaining 50.0% interest was held by a third-party joint venture partner. As part of the Formation Transactions, we acquired the 50.0% interest held by our joint venture partner for $130,381,000 payable in shares of our common stock. The purchase price took into account certain tax benefits to our joint venture partner. The transaction was accounted for as a step acquisition in which we were required to re-measure our existing 50.0% ownership interest at fair value. As a result of the acquisition, we own 100.0% of the property and began consolidating the accounts of the property into our consolidated financial statements from the date of acquisition. In connection therewith, we recognized a $239,716,000 gain, comprised of (i) $175,917,000 representing the excess of the fair value of the property over the carrying amount of our investment in the property, and (ii) $63,799,000 representing a purchase gain.

Income Tax expense

Income tax expense was $505,000 for the period from November 24, 2014 to December 31, 2014.

Net Income Attributable to Noncontrolling Interests in Joint Ventures and Funds

Net income attributable to noncontrolling interests in joint ventures and funds was $1,488,000 for the period from November 24, 2014 to December 31, 2014 and represents net income attributable to the noncontrolling interests in our consolidated joint ventures: 31 West 52nd Street, One Market Plaza, and the private equity real estate funds that we consolidate.

Net Income Attributable to Noncontrolling Interests in Operating Partnership

Net income attributable to noncontrolling interests in Operating Partnership was $13,926,000 for the period from November 24, 2014 to December 31, 2014 and represents net income attributable to the unitholders of the Operating Partnership.

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Results of Operations – The Predecessor - Period from January 1, 2014 to November 23, 2014 compared to year ended December 31, 2013

The following table summarizes the consolidated results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013.

(Amounts in thousands)	The Predecessor Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	Change
REVENUES:			
Rental income	$30,208	$30,406	$(198)
Tenant reimbursement income	1,646	1,821	(175)
Distributions from real estate fund investments	17,083	29,184	(12,101)
Realized and unrealized gains, net	129,354	332,053	(202,699)
Fee and other income	49,098	26,426	22,672
Total revenues	227,389	419,890	(192,501)
EXPENSES:			-
Operating	15,862	16,195	(333)
Depreciation and amortization	10,203	10,582	(379)
General and administrative	30,912	33,504	(2,592)
Profit sharing compensation	12,041	23,385	(11,344)
Other	7,974	4,633	3,341
Total expenses	76,992	88,299	(11,307)
Operating income	150,397	331,591	(181,194)
Income from partially owned entities	4,241	1,062	3,179
Unrealized (loss) gain on interest rate swaps	(673)	1,615	(2,288)
Interest and other income, net	2,479	9,407	(6,928)
Interest and debt expense	(28,585)	(29,807)	1,222
Net income before income taxes	127,859	313,868	(186,009)
Income tax expense	(18,461)	(11,029)	(7,432)
Net income	109,398	302,839	(193,441)
Net income attributable to noncontrolling interests	(87,888)	(286,325)	198,437
Net income attributable to the Predecessor	$21,510	$16,514	$4,996

Rental Income

Rental income in the period from January 1, 2014 to November 23, 2014, and in the year ended December 31, 2013, represents rental income from Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor. Rental income was $30,208,000 in the period from January 1, 2014 to November 23, 2014, compared to $30,406,000 in the year ended December 31, 2013, a decrease of $198,000. This decrease was primarily due a full year's results of operations in 2013, compared to a partial year in 2014.

Tenant Reimbursement Income

Tenant reimbursement income in the period from January 1, 2014 to November 23, 2014, and in the year ended December 31, 2013, represents reimbursement income from tenants at Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Tenant reimbursement income was $1,646,000 in the period from January 1, 2014 to November 23, 2014, compared to $1,821,000 in the year ended December 31, 2013, a decrease of $175,000. This decrease was primarily due a full year's results of operations in 2013, compared to a partial year in 2014.

Distributions from Real Estate Fund Investments

Distributions from real estate fund investments comprise distributions received from our private equity real estate funds and were $17,083,000 in the period from January 1, 2014 to November 23, 2014, compared to $29,184,000 in the year ended December 31, 2013, a decrease of $12,101,000. This decrease was primarily attributable to the elimination of distributions from 1633 Broadway as cash was retained in 2014 in order to fund leasing costs at the property.

Realized and Unrealized Gains, Net

Realized and unrealized gains, net were $129,354,000 in the period from January 1, 2014 to November 23, 2014, compared to $332,053,000 in the year ended December 31, 2013, a decrease of $202,699,000. This decrease was primarily attributable to market fundamentals in 2014 as compared to 2013. While market fundamentals continued to improve during 2014, they did so at a slower pace as compared to 2013.

Fee and Other Income

Fee and other income was $49,098,000 in the period from January 1, 2014 to November 23, 2014, compared to $26,426,000 in the year ended December 31, 2013, an increase of $22,672,000. The increase is primarily due to (i) higher acquisition and disposition fees of $22,253,000, due to an increase in aggregate amount of transactions in 2014 and (ii) higher leasing fees of $1,497,000, partially offset by (iii) lower construction fees of $1,219,000.

Operating Expenses

Operating expenses in the period from January 1, 2014 to November 23, 2014, and in the year ended December 31, 2013 represents the operating expenses of Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor, and the cost of operating and managing the portfolio of properties owned by our Predecessor as well as the private real estate funds that it controlled. Operating expenses were $15,862,000 in the period from January 1, 2014 to November 23, 2014, compared to $16,195,000 in the year ended December 31, 2013, a decrease of $333,000. This decrease was primarily due a full year's results of operations in 2013, compared to a partial year in 2014.

Depreciation and Amortization

Depreciation and amortization in the period from January 1, 2014 to November 23, 2014, and in the year ended December 31, 2013, represents depreciation and amortization on Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Depreciation and amortization was $10,203,000 in the period from January 1, 2014 to November 23, 2014, compared to $10,582,000 in the year ended December 31, 2013, a decrease of $379,000. This decrease was primarily due a full year's depreciation in 2013, compared to a partial year in 2014.

General and Administrative

General and administrative expenses were $30,912,000 in the period from January 1, 2014 to November 23, 2014, compared to $33,504,000 in the year ended December 31, 2013, a decrease of $2,592,000. General and administrative expenses include $1,706,000 and $5,532,000 of expense in 2014 and 2013, respectively, from the mark-to-market of investments in the deferred compensation plan of our Predecessor, for which there is a corresponding increase in "interest and other income." Excluding these amounts, general and administrative expenses were $29,206,000 in the period from January 1, 2014 to November 23, 2014, compared to $27,972,000 in the year ended December 31, 2013, an increase of $1,234,000. This increase resulted primarily from higher payroll costs.

Profit Sharing Compensation

Profit sharing compensation represents a portion of fee income and real estate appreciation attributable to our Predecessor's private equity real estate fund business, which was payable to certain management employees through profit sharing arrangements. These arrangements ceased upon completion of the Offering and the Formation Transactions. Profit sharing compensation was $12,041,000 in the period from January 1, 2014 to November 23, 2014, compared to $23,385,000 in the year ended December 31, 2013, a decrease of $11,344,000. This decrease resulted primarily from decreases in unrealized gains on real estate investments held through funds.

Other Expenses

Other expenses were $7,974,000 in the period from January 1, 2014 to November 23, 2014, compared to $4,633,000 in the year ended December 31, 2013, an increase of $3,341,000. This increase resulted primarily from higher capital raising and formation costs for our Predecessor's private equity real estate fund business.

Income from Partially Owned Entities

Income from partially owned entities was $4,241,000 in the period from January 1, 2014 to November 23, 2014, compared to $1,062,000 in the year ended December 31, 2013, an increase of $3,179,000. This increase was attributable to higher income of (i) $1,650,000 from our investment in 1325 Avenue of the Americas, and (ii) $1,529,000 from our investment in 712 Fifth Avenue.

Unrealized (Loss) Gain on Interest Rate Swaps

Unrealized (loss) gain on interest rate swaps was a loss of $673,000 in the period from January 1, 2014 to November 23, 2014, compared to a gain of $1,615,000 in the year ended December 31, 2013, a decrease in income of $2,288,000. This decrease resulted primarily from a decrease in interest rate indexes to which rates are tied. These interest rate swaps related to the debt of certain private equity real estate funds that were controlled by our Predecessor.

Interest and Other Income, net

Interest and other income was $2,479,000 in the period from January 1, 2014 to November 23, 2014, compared to $9,407,000 in the year ended December 31, 2013, a decrease of $6,928,000. Interest and other income includes $1,706,000 and $5,532,000 of income in 2014 and 2013, respectively, from the mark-to-market of investments in the deferred compensation plan of our Predecessor, for which there is a corresponding increase in "general and administrative" expenses. Excluding these amounts, interest and other income was $773,000 in the period from January 1, 2014 to November 23, 2014, compared to $3,875,000 in the year ended December 31, 2013, a decrease of $3,102,000. This decrease resulted primarily from interest income received in the year ended December 31, 2013 from new investors in one of our private equity real estate funds in connection with their initial capital contributions.

Interest and Debt Expense

Interest and debt expense included in the period from January 1, 2014 to November 23, 2014 and in the year ended December 31, 2013 related to interest incurred on the Waterview mortgage, the fund-level debt of the private equity real estate funds and preferred equity in the joint venture holding 1633 Broadway. Interest expense was $28,585,000 in the period from January 1, 2014 to November 23, 2014, compared to $29,807,000 in the year ended December 31, 2013, a decrease of $1,222,000. This decrease was primarily due a full year's results of operations in 2013 compared to a partial year in 2014.

Income Tax Expense

Income tax expense was $18,461,000 in the period from January 1, 2014 to November 23, 2014, compared to $11,029,000 in the year ended December 31, 2013, an increase of $7,432,000. This increase resulted primarily from previously deferred contingent fees that were recognized in 2014.

Net Income Attributable to Noncontrolling Interests in Joint Ventures and Funds

Net income attributable to noncontrolling interests in joint ventures and funds was $87,888,000 for the period from January 1, 2014 to November 24, 2014, compared to $286,325,000 in the year ended December 31, 2013, a decrease of $198,437,000 and represents net income attributable to the noncontrolling interests of the private equity real estate funds. The decrease resulted primarily from lower income from real estate fund investments.

Results of Operations – Year Ended December 31, 2013 compared to Year Ended December 31, 2012

The following table summarizes the combined consolidated historical results of operations of our Predecessor for the years ended December 31, 2013 and December 31, 2012. As noted above, following the Formation Transactions, our consolidated financial statements differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor.

	The Predecessor		
	Year Ended December 31,		
(Amounts in thousands)	2013	2012	Change
REVENUES:			
Rental income	$30,406	$29,773	$633
Tenant reimbursement income	1,821	1,543	278
Distributions from real estate fund investments	29,184	31,326	(2,142)
Realized and unrealized gains, net	332,053	161,199	170,854
Fee and other income	26,426	22,974	3,452
Total revenues	419,890	246,815	173,075
EXPENSES:			
Operating	16,195	15,402	793
Depreciation and amortization	10,582	10,104	478
General and administrative	33,504	28,374	5,130
Profit sharing compensation	23,385	17,554	5,831
Other expenses	4,633	6,569	(1,936)
Total expenses	88,299	78,003	10,296
Operating income	331,591	168,812	162,779
Income from partially owned entities	1,062	3,852	(2,790)
Unrealized gain on interest rate swaps	1,615	6,969	(5,354)
Interest and other income, net	9,407	4,431	4,976
Interest and debt expense	(29,807)	(37,342)	7,535
Net income before income taxes	313,868	146,722	167,146
Income tax expense	(11,029)	(6,984)	(4,045)
Net income	302,839	139,738	163,101
Net income attributable to noncontrolling interests	(286,325)	(137,443)	(148,882)
Net income attributable to the Predecessor	$16,514	$2,295	$14,219

Rental Income

Rental income in the years ended December 31, 2013 and 2012 represents rental income from Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Rental income was $30,406,000 in the year ended December 31, 2013, compared to $29,773,000 in the year ended December 31, 2012, an increase of $633,000. This increase was due to consumer price index increases under the terms of the principal lease at Waterview.

Tenant Reimbursement Income

Tenant reimbursement income in the years ended December 31, 2013 and 2012 represents reimbursement income from Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Tenant reimbursement income was $1,821,000 in the year ended December 31, 2013, compared to $1,543,000 in the year ended December 31, 2012, an increase of $278,000. This increase resulted primarily from an increase in real estate taxes at Waterview.

Distributions from Real Estate Fund Investments

Distributions from real estate fund investments comprise distributions received by our private equity real estate funds and were $29,184,000 in the year ended December 31, 2013, compared to $31,326,000 in the year ended December 31, 2012, a decrease of $2,142,000. This decrease was primarily attributable to the elimination of distributions from 1633 Broadway as cash was retained in 2013 in order to fund leasing costs at the property.

Realized and Unrealized Gains, Net

Realized and unrealized gains, net were $332,053,000 in the year ended December 31, 2013, compared to $161,199,000 in the year ended December 31, 2012, an increase of $170,854,000, primarily due to an increase in the value of our Funds' investments. The value of our Funds' investment is impacted by a variety of factors including changes in existing and projected net operating income and cash flows, ongoing capital projects, leasing related capital expenditures, and changes in key assumptions used in projecting likely price achievable through third-party asset sales. These key assumptions include indicators such as rental growth rates, leasing velocity and occupancy levels, as well as investment factors such as prevailing and projected investment capitalization and discount rates. The increase in value was largely the result of increased net operating income resulting from improved occupancy levels as well as a decrease in assumed capitalization rates as real estate investment markets continued to recover from the impacts of the recession and sub-prime crisis.

Fee and Other Income

Fee and other income was $26,426,000 in the year ended December 31, 2013, compared to $22,974,000 in the year ended December 31, 2012, an increase of $3,452,000. This increase resulted primarily from (i) higher construction management fees and property management fees aggregating $5,353,000 associated with increased leasing activity in 2013, and (ii) higher financing fees of $560,000, partially offset by (iii) lower acquisition and disposition fees of $2,677,000 due to a reduction in the aggregate amount of transactions executed in 2013.

Operating Expenses

Operating expenses in the years ended December 31, 2013 and 2012 represents the operating expenses of Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor, and the cost of operating and managing the portfolio of properties owned by our Predecessor as well as the private real estate funds that it controlled. Operating expenses were $16,195,000 in year ended December 31, 2013, compared to $15,402,000 in the year ended December 31, 2012, an increase of

$793,000. This increase resulted primarily from higher real estate taxes at Waterview.

Depreciation and Amortization

Depreciation and amortization in the years ended December 31, 2013 and 2012 represents depreciation and amortization on Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Depreciation and amortization was $10,582,000 in year ended December 31, 2013, compared to $10,104,000 in the year ended December 31, 2012, an increase of $478,000.

General and Administrative

General and administrative expenses were $33,504,000 in the year ended December 31, 2013, compared to $28,374,000 in the year ended December 31, 2012, an increase of $5,130,000. General and administrative expenses includes $5,532,000 and $2,071,000 of expense in 2013 and 2012, respectively, from the mark-to-market of investments in the deferred compensation plan of our Predecessor, for which there is a corresponding increase in "interest and other income." Excluding these amounts, general and administrative expenses were $27,972,000 in the year ended December 31, 2013, compared to $26,303,000 in the year ended December 31, 2012, an increase of $1,669,000. This increase resulted primarily from higher payroll costs.

Profit Sharing Compensation

Profit sharing compensation represents a portion of fee income and real estate appreciation attributable to our Predecessor's private equity real estate fund business, which was payable to certain management employees through profit sharing arrangements. These arrangements ceased upon completion of the Offering and the Formation Transactions. Profit sharing compensation was $23,385,000 in the year ended December 31, 2013, compared to $17,554,000 in the year ended December 31, 2012, an increase of $5,831,000. This increase resulted primarily from increases in unrealized gains on real estate investments held through funds.

Other Expenses

Other expenses include acquisition pursuit costs, fund formation costs and capital raising costs. Other expenses were $4,633,000 in the year ended December 31, 2013, compared to $6,569,000 in the year ended December 31, 2012, a decrease of $1,936,000. This decrease resulted primarily from lower capital raising and formation costs for our Predecessor's private equity real estate fund business.

Income from Partially Owned Entities

Income from partially owned entities was $1,062,000 in the year ended December 31, 2013, compared to $3,852,000 in the year ended December 31, 2012, a decrease of $2,790,000. This decrease resulted primarily from lower income at 1325 Avenue of the Americas and 900 Third Avenue.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was $1,615,000 in the year ended December 31, 2013, compared to $6,969,000 in the year ended December 31, 2012, a decrease of $5,354,000. This decrease resulted primarily from a decrease in the remaining terms of the various swap instruments and an increase in the interest rate indexes to which rates are tied. These interest rate swaps related to the debt of certain private equity real estate funds that were controlled by our Predecessor.

Interest and Other Income, net

Interest and other income was $9,407,000 in the year ended December 31, 2013, compared to $4,431,000 in the year ended December 31, 2012, an increase of $4,976,000. Interest and other income includes $5,532,000 and $2,071,000 of income in 2013 and 2012, respectively, from the mark-to-market of investments in the deferred compensation plan of our Predecessor, for which there is a corresponding increase in "general and administrative" expenses. Excluding these amounts, interest and other income was $3,875,000 in the year ended December 31, 2013, compared to $2,360,000 in the year ended December 31, 2012, an increase of $1,515,000. This increase resulted primarily from interest income received from new investors in one of our private equity real estate funds in connection with their initial capital contributions.

Interest and Debt Expense

Interest and debt expense included in the historical results of our Predecessor relates to interest incurred on the Waterview mortgage, the fund-level debt of the private equity real estate funds and preferred equity in the joint venture holding 1633 Broadway. Interest expense was $29,807,000 in the year ended December 31, 2013, compared to $37,342,000 in the year ended December 31, 2012, a decrease of $7,535,000. This decrease was primarily due to the maturity of fund swap contracts, which were then converted to lower variable interest rates and lower average outstanding debt in 2013 as compared to 2012.

Income Tax Expense

Income tax expense was $11,029,000 in the year ended December 31, 2013, compared to $6,984,000 in the year ended December 31, 2012, an increase of $4,045,000. This increase resulted primarily from higher taxable income in 2013 relating to certain contingent fees that had been deferred in prior years and a taxable gain on the sale of a property in 2013.

Net Income Attributable to Noncontrolling Interests in Joint Ventures and Funds

Net income attributable to noncontrolling interests in joint ventures and funds included in the historical results of our Predecessor represents net income attributable to the noncontrolling interests of the private equity real estate funds. Net income attributable to such noncontrolling interests was $286,325,000 in the year ended December 31, 2013, compared to $137,443,000 in the year ended December 31, 2012, an increase of $148,882,000. This increase resulted primarily from higher realized and unrealized gains on real estate fund investments.

Liquidity and Capital Resources

Our primary sources of liquidity include existing cash balances, cash flow from operations and borrowings available under our $1.0 billion senior unsecured 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 shareholder and distributions to unitholders, and all other capital needs related to the operations 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, and the issuance of long-term debt or equity.

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.

Revolving Credit Facility

On November 24, 2014, we entered into a $1.0 billion senior unsecured revolving credit facility, with an accordion feature to increase the availability to $1.25 billion under certain circumstances. The facility consists of an $800 million tranche (“Tranche A”) and a $200 million tranche (“Tranche B”). Tranche A has a four-year term, with a one-year extension option and Tranche B has a one-year term, with automatic one-year extension options. The facility bears interest at (i) a base rate plus an applicable margin ranging from 0.20% to 0.70% per annum, or (ii) LIBOR plus an applicable margin ranging from 1.20% to 1.70% per annum for borrowings under Tranche A and from 0.80% to 1.30% per annum for borrowings under Tranche B, either of which will be calculated based on our consolidated leverage ratio. If we obtain an investment grade credit rating, the facility will bear interest at (i) a base rate plus an applicable margin ranging from 0.00% to 0.70% per annum, or (ii) LIBOR plus an applicable margin ranging from 0.875% to 1.650% per annum for borrowings under Tranche A and from 0.475% to 1.250% per annum for borrowings under Tranche B. As of December 31, 2014, there were no amounts outstanding under our senior unsecured revolving credit facility and $200 million was reserved under a letter of credit.

Dividend Policy

In order to qualify as a REIT, we are required to distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. We expect to pay quarterly dividends to our stockholders in a manner intended to satisfy this requirement. Prior to paying any dividends, we must first satisfy our operating and debt service obligations. It is possible that it would be necessary to utilize cash reserves, liquidate assets at unfavorable prices or incur additional indebtedness in order to make required distributions. It is also possible that the board of directors could decide to make required distributions in part by using shares of our common stock.

On February 27, 2015, we declared a regular quarterly cash dividend of $0.039 per share of common stock for the 38 day period in the fourth quarter ended December 31, 2014 during which we were a public company. The dividend is payable on March 27, 2015 to stockholders of record as of the close of business on March 11, 2015.

On February 27, 2015, we also declared a regular quarterly cash dividend of $0.095 per share of common stock for the first quarter ending March 31, 2015 (an indicated annual rate of $0.38 per common share). The dividend is payable on March 30, 2015 to stockholders of record as of the close of business on March 12, 2015.

Contractual Obligations

Below is a summary of our contractual obligations and commitments as of December 31, 2014.

	Payments due by period				
(Amounts in thousands)	Total	Less than one year	1-3 years	3-5 years	Thereafter
Mortgages and other debt:					
Interest expense	$423,802	$154,542	$216,470	$49,117	$3,673
Principal repayment	2,852,287	1,373	1,827,041	940,967	82,906
Due to affiliates	27,681	138	27,543	-	-
Loans payable to noncontrolling interests	121,214	-	-	-	121,214
Tenant obligations	76,867	76,867	-	-	-
Leasing commissions	12,539	12,539	-	-	-
Total	$3,514,390	$245,459	$2,071,054	$990,084	$207,793

Off Balance Sheet Arrangements

As of December 31, 2014, we had a 50% interest in one unconsolidated joint venture that had $246.5 million of outstanding indebtedness, of which our share was $123.2 million. 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.

Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry to insure against liability claims and related defense costs. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of flood and earthquake shock. 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, which insure fee title to our real 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. In addition, for properties we may self-insure certain portions of our insurance program, and therefore, use our own funds to satisfy those limits, when applicable. 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 the opinion of our management, 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, 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 requires compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our senior unsecured revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2014, 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

As noted above, we will no longer account for the assets that we acquired from the private equity real estate funds that our Predecessor controlled under investment company accounting. Instead, we account for these assets using either consolidated historical cost accounting or the equity method. Moving from investment company accounting to consolidated historical cost accounting or the equity method resulted in a significant change in the classification of our cash flows. For example, the purchase and sale of underlying investments by our private equity real estate funds that utilize investment company accounting are treated as an operating activity and such purchases and sales are shown net of any related mortgage debt entered into upon acquisition or repaid upon sale. Purchases and sales that we engage in directly or through our consolidated subsidiaries other than these funds will be treated as investing activities and any related mortgage debt entered into upon acquisition or repaid upon sale will be treated as financing activities. Furthermore, all other property-level debt activity relating to properties owned by these funds is currently treated as operating activity, whereas debt activity engaged in directly or through our consolidated subsidiaries other than these funds will be treated as financing activity. In addition, the net income of our Predecessor currently reflects significant unrealized gains or losses relating to properties owned by these funds. Any unrealized gains or losses are reversed to arrive at net cash flow provided by or used in operating activities. Gains or losses arising from sales of properties owned by us directly or through our consolidated subsidiaries will only be recognized by us when realized. The proceeds of such sales will be reflected in net cash provided by investing activities.

The Company – Period from November 24, 2014 to December 31, 2014

Cash and cash equivalents were $438,599,000 and $52,086,000, at December 31, 2014 and November 23, 2014, respectively, an increase of $386,513,000. The following table sets forth the changes in cash flow.

(Amount in thousands)	Period from November 24, 2014 to December 31, 2014
Net cash provided by (used in):	
Operating activities	$ (80,572)
Investing activities	204,913
Financing activities	262,172

Operating Activities

Period from November 24, 2014 to December 31, 2014 – We used $80,572,000 of cash for operating activities in the period from November 24, 2014 to December 31, 2014, primarily to fund real estate fund investments aggregating

$51,362,000 and leasing costs aggregating $13,181,000.

Investing Activities

Period from November 24, 2014 to December 31, 2014 – We generated $204,913,000 of cash from investing activities in the period from November 24, 2014 to December 31, 2014, primarily from cash received from properties in connection with the Formation Transactions.

Financing Activities

Period from November 24, 2014 to December 31, 2014 – We generated $262,172,000 of cash from financing activities in the period from November 24, 2014 to December 31, 2014. Cash generated from financing activities during the period was primarily due to the issuance and sale of common stock in connection with the Offering, substantially all of the proceeds of which were used toward the repayment of debt assumed in the Formation Transactions and the defeasance of a mortgage note payable.

The Predecessor

Cash and cash equivalents were $52,086,000, $307,161,000 and $304,978,000 at November 23, 2014, December 31, 2013, and December 31, 2012, respectively, a decrease of $255,075,000 in the period from January 1, 2014 to November 23, 2014 and an increase of $2,183,000 during the year ended December 31, 2013. The following table sets forth the changes in cash flow.

(Amount in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Net cash provided by (used in):			
Operating activities	$(84,495)	$33,485	$(83,464)
Investing activities	(64,330)	1,042	5,072
Financing activities	(106,250)	(32,344)	98,864

Operating Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013 - Our Predecessor used $84,495,000 of cash for operating activities during the period January 1, 2014 to November 23, 2014, compared to $33,485,000 generated during the year ended December 31, 2013, a decrease of $117,980,000. This decrease was primarily due to $31,061,000 for net real estate fund investments in 2014 resulting from the purchase of a new asset and additional investments in existing assets and changes in other operating assets and liabilities aggregating $87,542,000.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012– Our Predecessor generated $33,485,000 of cash from operating activities during the year ended December 31, 2013, compared to $83,464,000 used for operating activities during the year ended December 31, 2012, an increase of $116,949,000. This increase was primarily due to $13,436,000 of proceeds from sales of real estate fund investments in 2013, compared to $116,553,000 expended in 2012 for the purchase of real estate fund assets.

Investing Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013 - Our Predecessor used $64,330,000 of cash for investing activities during the period January 1, 2014 to November 23, 2014, compared to $1,042,000 provided during the year ended December 31, 2013, a decrease of $65,372,000. This decrease was primarily due to a $64,650,000 acquisition by a consolidated private equity fund, which utilizes historical cost accounting rather than investment company accounting.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012–Our Predecessor generated $1,042,000 of cash from investing activities during the year ended December 31, 2013, compared to $5,072,000 generated during the year ended December 31, 2012, a decrease of $4,030,000. This decrease resulted primarily from a refund of tenant improvements of $2,197,000, and the proceeds of a sale of joint venture interests of $2,000,000 in 2012.

Financing Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013– Our Predecessor used $106,250,000 of cash for financing activities during the period January 1, 2014 to November 23, 2014, compared to $32,344,000 used during the year ended December 31, 2013, an increase of $73,906,000. This was primarily due to a decrease in net contributions from noncontrolling interests aggregating $92,926,000, from $99,619,000 in 2013 to $6,693,000 in 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012– Our Predecessor used $32,344,000 of cash for financing activities during the year ended December 31, 2013, compared to $98,864,000 generated during the year ended December 31, 2012, a decrease of $131,208,000. This decrease resulted primarily from an increase of $107,765,000 in net distributions to the equity owners of the Paramount Predecessor, and a decrease of $21,531,000 in net contributions from non-controlling interests.

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.

Net Operating Income ("NOI")

NOI is a metric we use to measure the operating performance of our properties, and consists of property-related revenue (which includes rental revenue, 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 pro rata 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 table presents a reconciliation of our net income to NOI and Cash NOI.

(Amounts in thousands)	The Company Period from November 24, 2014 to December 31, 2014
Reconciliation of net income to NOI:	
Net income	$ 72,722
Add:	
Depreciation and amortization	34,481
General and administrative expenses	2,207
Interest and debt expense	43,743

Acquisition, transaction and formation related costs	143,437
Income tax expense	505
NOI of partially owned entities	1,680
Less:	
Income from partially owned entities	(938)
Fee income	(1,176)
Unrealized gain on interest rate swaps	(15,084)
Interest and other income (loss), net	179
Gain on consolidation of a partially owned entity	(239,716)
NOI	42,040
Less NOI attributable to noncontrolling interests in consolidated joint ventures and funds	(5,710)
Pro rata share of NOI	$ 36,330

Reconciliation of NOI to Cash NOI:	
NOI	$ 42,040
Less:	
Straight-line rent adjustments	(5,660)
Amortization of below-market leases, net	(467)
Cash NOI	35,913
Less Cash NOI attributable to noncontrolling interests in consolidated joint ventures and funds	(4,092)
Pro rata share of Cash NOI	$ 31,821

Funds from Operations ("FFO") and Core Funds from Operations ("Core FFO")

FFO is a supplemental measure of our performance. We present FFO in accordance with the definition adopted by 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 the pro rata 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 acquisition, transaction and formation related costs, unrealized gains or losses on interest rate swaps 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 financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

(Amounts in thousands, except per share amounts)	The Company Period from November 24, 2014 to December 31, 2014		
Reconciliation of net income to FFO:			
Net income	$	72,722	
Real estate depreciation and amortization		34,481	
Pro rata share of real estate depreciation and amortization of partially owned entities		605	
FFO	$	107,808	
Less FFO attributable to noncontrolling interests in:			
Consolidated joint ventures and funds		(5,353	)
Operating Partnership		(20,030	)
FFO attributable to Paramount Group, Inc.	$	82,425	
Per diluted share	$	0.39	

Reconciliation of FFO to Core FFO:			
FFO	$	107,808	
Non-core (income) expense:			
Acquisition, transaction and formation related costs		143,437	
Defeasance and debt breakage costs		25,717	
Unrealized gains on interest rate swaps		(15,084	)
Pro rata share of unrealized gains on interest rate swaps of partially owned entities		(643	)
Gain on consolidation of a partially owned entity		(239,716	)
Core FFO		21,519	
Less Core FFO attributable to noncontrolling interests in:			
Consolidated joint ventures and funds		(1,506	)
Operating Partnership		(3,913	)
Core FFO attributable to Paramount Group, Inc.	$	16,100	
Per diluted share	$	0.08	
Reconciliation of weighted average shares outstanding:			
Weighted average shares outstanding		212,106,718	
Effect of dilutive securities		1,190	
Denominator for FFO per diluted share		212,107,908	

ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 arrangements with the lender to in effect fix the rate on all or a portion of the debt for varying periods up to 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 total consolidated indebtedness and the effect to interest expense of a 100 basis point increase in LIBOR.

(Amounts in thousands, except per share amount)	Balance at December 31, 2014	Weighted Average Interest Rate		Effect of 1% Increase in Base Rates
Pro rata share of consolidated debt:				
Variable rate	$229,001	1.59	%	$ 2,290
Fixed rate	2,039,864	5.80	%	-
	$2,268,865	5.37	%	$ 2,290
Pro rata share of debt of non-consolidated entities (non-recourse)				
Variable rate	$10,750	2.71	%	$ 108
Fixed rate	112,500	5.65	%	-
	$123,250	5.39	%	$ 108
Noncontrolling interests' share of above				(469)
Total change in annual net income				$ 1,929
Per share-diluted				$ 0.01

As of December 31, 2014, our interest rate swaps had a fair value that resulted in a net liability of $194,196,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Paramount Group, Inc.

New York, NY

We have audited the accompanying combined consolidated balance sheets of Paramount Group, Inc. as of December 31, 2014 (the Company or Successor) and 2013 (Paramount Predecessor), and the related combined consolidated statements of income, changes in equity and cash flows for the period from November 24, 2014 through December 31, 2014 (Successor), for the period from January 1, 2014 through November 23, 2014 and for the years ended December 31, 2013 and 2012 (Paramount Predecessor). Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined consolidated financial statements present fairly, in all material respects, the financial position of Paramount Group, Inc. as of December 31, 2014 (Successor) and 2013 (Paramount Predecessor), and the results of their operations and their cash flows for the period from November 24, 2014 through December 31, 2014 (Successor), for the period from January 1, 2014 through November 23, 2014 and for the years ended December 31, 2013 and 2012 (Paramount Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

New York, NY

March 19, 2015

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)	The Company	The Predecessor
	As of December 31,	
ASSETS	2014	2013
Rental property, at cost		
Land	$2,042,071	$78,300
Buildings and improvements	5,488,168	336,698
	7,530,239	414,998
Accumulated depreciation and amortization	(81,050)	(57,689)
Rental property, net	7,449,189	357,309
Real estate fund investments at fair value	323,387	2,158,889
Investments in partially owned entities	5,749	20,242
Cash and cash equivalents	438,599	307,161
Restricted cash	55,728	10,604
Marketable securities	20,159	26,065
Deferred rent receivable	8,267	2,776
Accounts and other receivables, net of allowance of $333 and $0 in 2014 and 2013, respectively	7,692	10,157
Loan receivable from management	-	3,000
Deferred charges, net of accumulated amortization of $10,859 and $9,713 in 2014 and 2013, respectively	39,165	20,353
Intangible assets, net of accumulated amortization of $20,509	669,385	-
Other assets	13,121	6,135
Total assets	$9,030,441	$2,922,691
LIABILITIES AND EQUITY		
Mortgages and notes payable	$2,852,287	$499,859
Credit facility	-	-
Due to affiliates	27,299	-
Loans payable to noncontrolling interests	42,195	-
Accounts payable and accrued expenses	93,472	11,419
Deferred income taxes	2,861	189,594
Interest rate swap liabilities	194,196	-
Intangible liabilities, net of accumulated amortization of $3,757	219,228	-
Preferred equity obligation	-	109,650
Profit sharing compensation payable	-	57,140
Other liabilities	43,950	29,585
Total liabilities	3,475,488	897,247
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock $0.01 par value per share; authorized 900,000,000 shares; issued and outstanding 212,106,718 shares as of December 31, 2014; and no shares authorized, issued and		

outstanding as of December 31, 2013	2,122	-
Additional paid-in-capital	3,851,432	-
Retained earnings	57,308	-
Paramount Group, Inc. equity	3,910,862	-
Paramount Predecessor equity	-	321,769
Noncontrolling interests in:		
Joint ventures and funds	685,888	1,703,675
Operating Partnership	958,203	-
Total equity	5,554,953	2,025,444
Total liabilities and equity	$ 9,030,441	$ 2,922,691

See notes to combined consolidated financial statements.

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(Amounts in thousands, except per share amounts)	The Company Period from November 24, 2014 to December 31, 2014
REVENUES:	
Rental income	$ 57,465
Tenant reimbursement income	5,865
Fee and other income	2,805
Total revenues	66,135
EXPENSES:	
Operating	26,011
Depreciation and amortization	34,481
General and administrative	2,207
Total expenses	62,699
Operating income	3,436
Income from real estate fund investments	1,412
Income from partially owned entities	938
Unrealized gain on interest rate swaps	15,084
Interest and other loss, net	(179)
Interest and debt expense	(43,743)
Acquisition, transaction and formation related costs	(143,437)
Gain on consolidation of a partially owned entity	239,716
Net income before income taxes	73,227
Income tax expense	(505)
Net income	72,722
Less net income attributable to noncontrolling interests:	
Joint ventures and funds	(1,488)
Operating Partnership	(13,926)
Net income attributable to Paramount Group, Inc.	$ 57,308
INCOME PER COMMON SHARE - BASIC:	
Income per common share	$ 0.27
Weighted average shares outstanding	212,106,718
INCOME PER COMMON SHARE - DILUTED:	
Income per common share	$ 0.27
Weighted average shares outstanding	212,107,908

See notes to combined consolidated financial statements.

PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF INCOME

	The Predecessor		
	Period from	Years Ended December 31,	
(Amounts in thousands)	January 1, 2014 to November 23, 2014	2013	2012
REVENUES:			
Rental income	$30,208	$30,406	$29,773
Tenant reimbursement income	1,646	1,821	1,543
Distributions from real estate fund investments	17,083	29,184	31,326
Realized and unrealized gains, net	129,354	332,053	161,199
Fee and other income	49,098	26,426	22,974
Total revenues	227,389	419,890	246,815
EXPENSES:			
Operating	15,862	16,195	15,402
Depreciation and amortization	10,203	10,582	10,104
General and administrative	30,912	33,504	28,374
Profit sharing compensation	12,041	23,385	17,554
Other	7,974	4,633	6,569
Total expenses	76,992	88,299	78,003
Operating income	150,397	331,591	168,812
Income from partially owned entities	4,241	1,062	3,852
Unrealized (loss) gain on interest rate swaps	(673)	1,615	6,969
Interest and other income, net	2,479	9,407	4,431
Interest and debt expense	(28,585)	(29,807)	(37,342)
Net income before income taxes	127,859	313,868	146,722
Income tax expense	(18,461)	(11,029)	(6,984)
Net income	109,398	302,839	139,738
Net income attributable to noncontrolling interests	(87,888)	(286,325)	(137,443)
Net income attributable to the Predecessor	$21,510	$16,514	$2,295

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands)	Common Shares Shares	Amount	Additional paid in capital	Retained Earnings	Predecessor Shareholders' Equity	Noncontrolling interests in Joint ventures and funds	Operating Partnership	Total Equity
The Predecessor								
Balance as of December 31, 2011	-	$ -	$ -	$ -	$ 425,675	$ 1,059,138	$ -	$ 1,484,813
Net income	-	-	-	-	2,295	137,443	-	139,738
Contributions	-	-	-	-	1,868	138,559	-	140,427
Distributions	-	-	-	-	(9,343)	(17,409)	-	(26,752)
Balance as of December 31, 2012	-	-	-	-	420,495	1,317,731	-	1,738,226
Net income	-	-	-	-	16,514	286,325	-	302,839
Contributions	-	-	-	-	5,359	106,262	-	111,621
Distributions	-	-	-	-	(120,599)	(6,643)	-	(127,242)
Balance as of December 31, 2013	-	-	-	-	321,769	1,703,675	-	2,025,444
Net (loss) income	-	-	-	-	21,510	87,888	-	109,398
Contributions	-	-	-	-	23,688	272,721	-	296,409
Distributions	-	-	-	-	(176,434)	(266,028)	-	(442,462)
Deemed contributions	-	-	-	-	187,389	-	-	187,389
Balance as of November 23, 2014	-	-	-	-	377,922	1,798,256	-	2,176,178
The Company								
Net income	-	-	-	57,308	-	1,488	13,926	72,722
Common shares issued:								
Initial public offering	150,650	1,507	2,496,693	-	-	-	-	2,498,200
Private placement	3,914	39	68,461	-	-	-	-	68,500
Acquire property interests	11,279	113	209,203	-	-	-	-	209,316
Upon redemption of common units	210	2	3,890	-	-	-	(3,892)	-
Under Omnibus share plan	6	1	-	-	-	-	-	1

Common units issued:								
Founders Grant	-	-	-	-	-	-	71,000	71,000
Under Omnibus share plan	-	-	(13,702)	-	-	-	13,702	-
Allocation of equity resulting from shares and units issued in connection with the Formation Transactions	46,048	460	1,130,868	-	(377,922)	(1,162,198)	819,177	410,385
Contributions by noncontrolling interest in joint ventures and funds	-	-	-	-	-	57,843	-	57,843
Distributions to noncontrolling interest in joint ventures and funds	-	-	-	-	-	(8,488)	-	(8,488)
Adjustments to carry common units at redemption value	-	-	(43,981)	-	-	-	43,981	-
Other	-	-	-	-	-	(1,013)	309	(704)
Balance as of December 31, 2014	212,107	$ 2,122	$ 3,851,432	$ 57,308	$ -	$ 685,888	$ 958,203	$ 5,554,953

See notes to combined consolidated financial statements.

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

	The Company	The Predecessor		
	Period from	Period from	Year Ended December 31,	
(Amounts in thousands)	November 24, 2014 to December 31, 2014	January 1, 2014 to November 23, 2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 72,722	$ 109,398	$ 302,839	$ 139,738
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Gain on consolidation of a partially owned entity	(239,716)	-	-	-
Stock-based compensation expense in connection with Founders Grants	71,000	-	-	-
Depreciation and amortization	34,481	10,203	10,582	10,104
Unrealized (gain) loss on interest rate swaps	(15,084)	673	(1,615)	(6,969)
Straight-lining of rental income	(5,653)	161	158	168
Other non-cash adjustments	1,368	7,303	4,221	3,881
Defeasance cost in connection with the refinancing of mortgage notes payable	14,990	-	-	-
Realized and unrealized losses (gains), net on real estate fund investments	1,357	(129,354)	(332,053)	(159,199)
Income from partially owned entities	(938)	(4,241)	(1,062)	(3,852)
Distributions of income from partially owned entities	532	2,874	2,612	3,852
Amortization of below-market leases, net	(467)	-	-	-
Amortization of deferred financing costs	240	389	434	434
Gain on sale of joint venture interest	-	-	-	(2,000)
Realized and unrealized losses (gains) from marketable securities	356	(1,706)	(5,532)	(2,071)
Changes in operating assets and liabilities:				
Restricted cash	6,502	(8,271)	4,115	29,454
Real estate fund investments	(51,362)	(31,061)	13,436	(116,553)
Accounts and other receivables	(150)	(35,989)	(4,724)	3,536
Deferred charges	(13,181)	600	(600)	(15)
Other assets	13,722	311	3,510	13,673
Accounts and other payables	14,162	(4,605)	7,712	(21)
Profit sharing payables	-	156	19,972	6,831
Deferred income taxes	-	(2,205)	2,701	1,761

Other liabilities	14,547	869	6,779	(6,216)
Net cash (used in) provided by operating activities	(80,572)	(84,495)	33,485	(83,464)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash received from properties in connection with the Formation Transactions	192,500	-	-	-
Acquisitions of, and additions to, rental properties	(6,143)	(65,916)	(147)	(188)
Change in restricted cash	18,556	584	648	380
Sale (purchase) of marketable securities	-	-	(2,731)	(2,444)
Proceeds from sale of joint venture interest	-	-	-	2,000
Proceeds from repayment of loan to management	-	3,000	1,000	1,000
Investment in partially owned entities	-	(4,077)	-	-
Refund of tenant improvements	-	-	-	2,197
Distributions of capital from partially owned entities	-	2,079	2,272	2,127
Net cash provided by (used in) investing activities	204,913	(64,330)	1,042	5,072

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

	The Company	The Predecessor		
	Period from	Period from	Year Ended December 31,	
	November 24, 2014 to December 31, 2014	January 1, 2014 to November 23, 2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from the issuance of common stock	$ 2,590,599	$ -	$ -	$ -
Repayment of mortgage note and loans payable	(1,704,330)	(2,827)	(17,635)	(45,140)
Cash paid for equity interest in the formation transactions	(214,949)	-	-	-
Contribution from noncontrolling interests	57,843	272,721	106,262	138,559
Settlement of swap liabilities	(14,130)	-	-	-
Debt issuance costs	(8,599)	-	-	-
Distributions to noncontrolling interests	(8,488)	(266,028)	(6,643)	(17,409)
Purchase of marketable securities in connection with the defeasance of mortgage notes payable	(435,774)	-	-	-
Contribution from shareholders	-	23,688	5,359	1,868
Distributions to shareholders	-	(149,135)	(120,599)	(9,343)
Proceeds from loans payable to noncontrolling interests	-	39,075	-	-
Proceeds from mortgage note and loans payable	-	-	-	30,329
Offering costs	-	(23,744)	912	-
Net cash provided by (used in) financing activities	262,172	(106,250)	(32,344)	98,864
Net increase (decrease) in cash and cash equivalents	386,513	(255,075)	2,183	20,472
Cash and cash equivalents at beginning of period	52,086	307,161	304,978	284,506
Cash and cash equivalents at end of period	$ 438,599	$ 52,086	$ 307,161	$ 304,978
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash payments for interest	$ 23,728	$ 19,829	$ 24,003	$ 38,380
Cash payments for income taxes	$ -	$ 18,998	$ 2,599	$ 6,158
NON-CASH TRANSACTIONS:				
Increase (decrease) in assets, liabilities and noncontrolling interests from the formation transactions:				
Real estate, net	$ 7,043,651	$ -	$ -	$ -
Real estate funds	(2,045,922)	-	-	-
Investment in partially owned entities	(18,264)	-	-	-
Working capital, net of cash	26,784	-	-	-
Intangible assets	689,894	-	-	-
Mortgages and notes payable	4,261,903	-	-	-
Intangible liabilities	222,985	-	-	-
Preferred equity obligation	114,147	-	-	-
Profit sharing compensation payable	(57,296)	-	-	-

Interest rate swap liabilities	223,411	-	-	-
Marketable securities transferred in connection with the defeasance of mortgages and notes payable	435,774	-	-	-
Defeasance of mortgages and notes payable	(420,784)	-	-	-
Reduction of equity for deferred offering costs	31,284	-	-	-
Debt assumed from affiliate	-	27,299	-	-
Sale of marketable securities	146	7,110	-	-
Write-off of fully amortized and/or depreciated assets	-	2,735	-	-

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

As used in these consolidated and combined financial statements, unless indicated otherwise, all references to "we," "us," "our," the "Company," and "Paramount" refer to Paramount Group, Inc. and its consolidated subsidiaries, including Paramount Group Operating Partnership LP, upon completion of the Formation Transactions (as more fully described below) and the initial public offering of common stock.

We are a fully-integrated real estate investment trust ("REIT") focused on owning, operating and managing high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of December 31, 2014, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 93.9% leased.

We were incorporated in Maryland as a corporation on April 14, 2014 to continue the business of our Predecessor, as defined, and did not have any meaningful operations until the completion of the Formation Transactions and our initial public offering on November 24, 2014 (the "Offering").

In connection with the Offering, we completed the following transactions:

- Issued a total of 150,650,000 common shares at a public offering price of $17.50 per share;
- Acquired, through a series of Formation Transactions, substantially all of the assets of our Predecessor and the assets of the Property Funds, as defined, that it controlled, as well as the interests of unaffiliated third parties in certain properties, for a combination of common shares, common units in our Operating Partnership ("common units") and cash, and;
- Entered into a $1.0 billion senior unsecured revolving credit facility, with an accordion feature to increase the availability to $1.25 billion under certain circumstances.

We commenced our operations on November 24, 2014, upon completion of the Offering and related Formation Transactions. 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 80.4% of the Operating Partnership as of December 31, 2014. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S federal income tax purposes commencing with our taxable year ended December 31, 2014.

Formation Transactions

We entered into a series of Formation Transactions (the “Formation Transactions”), concurrently with the completion of the Offering, pursuant to which we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds, as defined, that it controlled, other than their interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas.

Our Predecessor

Our Predecessor is not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) (collectively, the “Funds”) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia, and (iii) three partially owned properties in New York, NY (See note 5, Investments in Partially Owned Entities).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Below is a summary of the 15 private equity real estate funds controlled by our Predecessor.

The following funds controlled by our Predecessor (collectively referred to herein as the “Property Funds”), were formed to invest in office buildings and related facilities throughout the United States, particularly in New York City, Washington, D.C. and San Francisco:

- Paramount Group Real Estate Fund I, L.P. (“Fund I”)
- Paramount Group Real Estate Fund II, L.P. (“Fund II”)
- Paramount Group Real Estate Fund III, L.P. (“Fund III”)
- Paramount Group Real Estate Fund IV, L.P. (“Fund IV”)
- PGREF IV Parallel Fund (Cayman), L.P. (“Fund IV Cayman”)
- Paramount Group Real Estate Fund V (CIP), L.P. (“Fund V CIP”)
- Paramount Group Real Estate Fund V (Core), L.P. (“Fund V Core”)
- PGREF V (Core) Parallel Fund (Cayman), L.P. (“Fund V Cayman”)
- Paramount Group Real Estate Fund VII, LP (“Fund VII”)
- Paramount Group Real Estate Fund VII-H, LP (“Fund VII-H”)

The following fund was formed to acquire, develop and manage the residential development project at 75 Howard Street:

- Paramount Group Residential Development Fund, LP (“Residential Fund”)

The following funds (collectively referred to herein as the “Alternative Investment Funds”) were formed to invest in real estate related assets including public/private debt and/or equity interests in assets, companies, or other structures involved directly or indirectly in real estate and/or originate, acquire, or issue loans to public/private real estate companies:

- Paramount Group Real Estate Special Situations Fund, L.P. (“PGRESS”)
- Paramount Group Real Estate Special Situations Fund–H, L.P. (“PGRESS-H”)
- Paramount Group Real Estate Special Situations Fund–A, L.P. (“PGRESS-A”)
- Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”)

The Property Funds and Residential Fund own interests in the following properties:

- 1633 Broadway, New York, NY

- 60 Wall Street, New York, NY

- 900 Third Avenue, New York, NY

•31 West 52nd Street, New York, NY

•1301 Avenue of the Americas, New York, NY

•One Market Plaza, San Francisco, CA

•50 Beale Street, San Francisco, CA

•75 Howard Street, San Francisco, CA

•Liberty Place, Washington, D.C.

•1899 Pennsylvania Avenue, Washington, D.C.

•2099 Pennsylvania Avenue, Washington, D.C.

•425 Eye Street, Washington, D.C.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated and combined financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. These consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require us to make 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. All significant inter-company amounts have been eliminated.

Our Predecessor's combined financial statements included all the accounts of our Predecessor, including its interests in (i) the Funds, (ii) Waterview, and (iii) the three partially-owned properties. Our Predecessor evaluated each of the Funds pursuant to the control model of Accounting Standards Codification ("ASC") 810-20, Consolidation—Control of Partnerships and Similar Entities and concluded that based on its rights and responsibilities as the sole managing member of the general partner it should consolidate each of the Funds. With the exception of the Residential Fund, which is carried at historical cost, each of the Funds qualify as investment companies pursuant to Financial Services—Investment Companies ("ASC 946"); accordingly, the underlying real estate investments are carried at fair value, which was retained in consolidation by our Predecessor.

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds that it controlled, other than their interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control. However, since the assets that we acquired from our Predecessor are no longer held by funds which qualify for investment company accounting, we account for these assets following the Formation Transactions using historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions, differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor.

Significant Accounting Policies

Rental Property

Rental property is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. We amortize acquired above-and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of depreciation and amortization.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Variable Interest Entities and Investments in Partially-Owned Entities

We consolidate variable interest entities ("VIEs") in which we are considered to be the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or that the holders of the equity investment at risk do not have a controlling financial interest. The primary beneficiary is defined by the entity having both of the following characteristics: (i) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and (ii) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. For joint ventures that are not VIEs, we consolidate entities for which we have significant decision making control over the joint ventures' operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment, estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the joint venture, if applicable.

We account for investments under the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. Investments accounted for under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions, and short-term highly liquid investments with original maturities of three months or less. The majority of our cash and cash equivalents are held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

Restricted Cash

Restricted cash consists of security deposits and cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for deferred rent receivable. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Deferred Charges

Deferred charges include deferred lease costs and deferred financing costs. Deferred lease costs consist of fees and direct costs related to successful leasing activities. Such costs are amortized on a straight line basis over the lives of the related leases as a component of depreciation and amortization. Deferred financing costs consist of fees and direct costs incurred in obtaining financing. Such costs are amortized over the terms of the related agreements as a component of interest expense.

Income Taxes

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2014. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on our undistributed taxable income.

Offering and Organization Costs

In connection with the Offering and related Formation Transactions, we incurred incremental accounting fees, legal fees, and other professional fees. These costs aggregated $31,284,000 and were recorded as a reduction of proceeds from the Offering. Certain other costs related to structuring the Formation Transactions were expensed as incurred.

Revenue Recognition

Rental Income

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to “deferred rent receivable.” Rental income also includes the amortization of acquired above-and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the property. This revenue is accrued in the same period as the expenses are incurred.

Distribution Income

Distributions received from real estate fund investments made through the Funds are recognized as income in the combined consolidated financial statements to the extent that they result from the operations of the underlying investee entity. Distributions from investments that do not result from the operations of the underlying investee entity are considered a return of investment.

Fee and Other Income

Fee and other income includes management fees earned pursuant to contractual agreements. This revenue is recognized as the related services are performed. Fee and other income also includes lease termination fees.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Segment Reporting

Upon completion of the Offering and Formation Transactions, we acquired substantially all of the assets of our Predecessor and substantially all of the assets of the Property Funds that it controlled. Our business, post the Formation Transactions, is comprised of one reportable segment. We have determined that our properties have similar economic characteristics to be aggregated into one reportable segment (operating, leasing and managing office properties). Our determination was based primarily on our method of internal reporting.

Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds, and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment.

Recently Issued Accounting Literature

In June 2013, the FASB issued an update ("ASU 2013-08") Financial Services-Investment Companies to ASC Topic 946-Amendments to the Scope, Measurement, and Disclosure Requirements. ASU 2013-08 changes the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and determine whether it is an investment company. The amendments in ASU 2013-08 are effective prospectively for fiscal years beginning after December 15, 2013. Early adoption is prohibited. The adoption of ASU 2013-08 on January 1, 2014 did not have a material impact on our Predecessor's combined consolidated financial statements.

In April 2014, the FASB issued an update ("ASU 2014-08") Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity to ASC Topic 205, Presentation of Financial Statements and ASC Topic 360, Property Plant and Equipment. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, the ASU expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. The adoption of ASU 2014-08 on January 1, 2014 did not have a material impact on our Predecessor's combined consolidated financial statements.

In May 2014, the FASB issued an update ("ASU 2014-09") Revenue from Contracts with Customers. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update ("ASU 2015-02") Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions

As discussed above, in connection with the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds that it controlled, other than its interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control.

The following is a summary of the properties acquired from the Funds, including our ownership percentage and the basis of accounting prior to and subsequent to the completion of the Offering and Formation Transactions.

	Pre-Formation Transactions		Post-Formation Transactions		
Property	Ownership	Basis of Accounting	Ownership		Basis of Accounting
1633 Broadway	75.5%	Investment Company	100.0%	(1)	Historical Cost - Consolidated
1301 Avenue of the Americas	75.5%	Investment Company	100.0%	(2)	Historical Cost - Consolidated
31 West 52nd Street	62.3%	Investment Company	64.2%	(3)	Historical Cost - Consolidated
900 Third Avenue	100.0%	Investment Company/Equity Method	100.0%	(4)	Historical Cost - Consolidated
Liberty Place	100.0%	Investment Company	100.0%		Historical Cost - Consolidated
425 Eye Street	100.0%	Investment Company	100.0%		Historical Cost - Consolidated
1899 Pennsylvania Avenue	100.0%	Investment Company	100.0%		Historical Cost - Consolidated
2099 Pennsylvania Avenue	100.0%	Investment Company	100.0%		Historical Cost - Consolidated
One Market Plaza	49.0%	Investment Company	49.0%	(5)	Historical Cost - Consolidated

(1) As part of the Formation Transactions, we acquired the remaining 24.5% interest we did not previously own, for $182,834,000, of which $108,385,000 was in cash and $74,449,000 was in common shares.

(2) As part of the Formation Transactions, we acquired the remaining 24.5% interest we did not previously own, for $86,960,000 in cash.

(3) As part of the Formation Transactions, we acquired a 1.9% interest from one of our joint venture partners, for $4,950,000 in common units.

(4) Prior to the Formation Transactions, our Predecessor owned a direct 11.8% interest in the property and the remaining 88.2% interest was held by the Property Funds that our Predecessor controlled. See Footnote 5 – Investments in Partially Owned Entities.

(5)

In addition to our direct 49.0% interest in the property, we are also the general partner of a limited partnership that holds a 2.0% interest in the property. As a result, we have a 51.0% voting interest and control the property; accordingly, we consolidate the operations of the property into our consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the properties previously owned by our Predecessor that were not held through funds, including our ownership percentage and the basis of accounting prior to and subsequent to the completion of the Offering and Formation Transactions.

	Pre-Formation Transactions		Post-Formation Transactions	
Property	Ownership	Basis of Accounting	Ownership	Basis of Accounting
1325 Avenue of the Americas	50.0%	Historical Cost - Equity Method	100.0% (1)	Historical Cost - Consolidated
712 Fifth Avenue	50.0%	Historical Cost - Equity Method	50.0%	Historical Cost - Equity Method
Waterview	100.0%	Historical Cost - Consolidated	100.0%	Historical Cost - Consolidated

(1) As part of the Formation Transactions, we acquired the remaining 50.0% interest we did not previously own, for $130,381,000. This transaction was accounted for as a step acquisition in which we obtained control and consolidated the property (see Note 5 - Investments in Partially-Owned Entities for further details).

As a result of the Formation Transactions and changes in the basis of accounting for 10 of the 12 properties, our consolidated financial statements differ significantly from, and are not comparable with, the historical financial position and results of operations of that of our Predecessor. The table below provides a summary of (i) the consideration paid in the Formation Transactions to acquire substantially all of the assets of our Predecessor and the Property Funds that it controlled, and (ii) the allocation of the fair value of the net assets acquired of the 10 properties whose basis of accounting changed subsequent to the completion of the Formation Transactions.

(Amounts in thousands)	
Consideration paid:	
Cash and issuance of common stock and OP units	$2,046,045
Debt assumed	4,987,249
Total consideration paid	$7,033,294
Fair value of the net assets acquired:	
Land	$1,940,645
Building and improvements	5,103,006
Acquired in-place leases	553,484
Acquired above-market leases	136,410
Acquired below-market leases	(222,985)
Total net assets acquired	$7,510,560

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

4. Real Estate Fund Investments

In March 2014, Fund III, PGRESS and PGRESS-H sold a detached seven-story parking structure located San Francisco to the Residential Fund for $64,650,000. The purpose of the Residential Fund is to construct a multifamily residential project in San Francisco. Excluding the Residential Fund, which is carried at historical cost, all of our Funds are accounted for as investment companies pursuant to ASC 946; accordingly, their investments are reflected at fair value on our consolidated balance sheets, with changes in fair value each period, recognized in earnings. We consolidate the Funds into our combined consolidated financial statements and retain the specialized basis of accounting for the Funds.

Real estate fund investments on our consolidated balance sheet are comprised of (i) Property Funds and (ii) Alternative Investment Funds.

The Company

Below is a summary of the aggregate fair value of the remaining real estate fund investments on our consolidated balance sheet.

(Amounts in thousands) Balance Sheet	The Company As of December 31, 2014
Real Estate Fund Investments:	
Property Funds	$ 183,216
Alternative Investment Funds	140,171
Total	$ 323,387

Below is a summary of income from the remaining real estate fund investments on our consolidated statement of income.

(Amounts in thousands) Income Statement	The Company Period from November 24, 2014 to December 31, 2014
Investment income	$ 3,334
Investment expenses	565
Net investment income	2,769
Net realized gains	50
Net unrealized losses	(1,407)
Income from real estate fund investments	$ 1,412

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Property Funds

The purpose of the Property Funds is to invest in office buildings and related facilities primarily in New York City, Washington, D.C. and San Francisco. As of December 31, 2014, the Property Funds were comprised of (i) Fund II, (ii) Fund III, (iii) Fund VII, and (iv) Fund VII-H. The following is a summary of the investments of our Property Funds.

	As of December 31, 2014		
	60 Wall Street	One Market Plaza	50 Beale Street
Fund II	46.3 %	-	-
Fund III	16.0 %	2.0 %	-
Fund VII [1]	-	-	41.1 %
Fund VII-H	-	-	1.7 %
Total Property Funds	62.3 %	2.0 %	42.8 %
Other Investors	37.7 %	98.0 % [2]	57.2 %
Total	100.0 %	100.0 %	100.0 %

[1] As of December 31, 2014, Fund VII had an aggregate of $57.6 million of committed capital that had not yet been invested.
[2] Includes a 49% ownership interest held by us.

Alternative Investment Funds

The purpose of the Alternative Investment Funds is to invest primarily in real estate related debt and preferred equity investments. As of December 31, 2014, the Alternative Investment Funds were comprised of (i) PGRESS, (ii) PGRESS-H, (iii) PGRESS-A, and (iv) Fund VIII, which had an aggregate of $434,000,000 of committed capital that had not yet been invested. The following is a summary of the investments of our Alternative Investment Funds.

26 Broadway

In December 2014, Fund VIII made a $50,000,000 mezzanine loan, of which $46,000,000 was funded at closing. The loan is secured by the equity interests in 26 Broadway, an 836,000 square foot office building, located in the financial district of New York. The loan bears interest at 8.25% and matures in January 2022. The loan is subordinate to $220,000,000 of other debt.

470 Vanderbilt Avenue

In February 2014, the Alternative Investments Funds (PGRESS, PGRESS-A and PGRESS-H, collectively referred to as the PGRESS Funds) acquired a $33,750,000 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, 650,000 square foot office building located in Brooklyn, New York. The preferred equity has a dividend rate of 10.25%, of which 8.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in February 2019.

2 Herald Square

The PGRESS Funds own a $17,500,000 preferred equity investment in a partnership that owns 2 Herald Square, a 369,000 square foot office and retail property in New York, New York. The preferred equity has a dividend rate of 10.3%, of which 7.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in April 2017 and has two one-year extension options.

One Court Square

PGRESS and PGRESS-H own a combined 28.0% interest in a $125,000,000 preferred equity investment in a partnership that owns One Court Square, a 1.5 million square foot office building located in Long Island City, New York. The preferred equity has a dividend rate of 15.0%, of which 9.5% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in September 2015 and has a one-year extension option.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The Predecessor

Below is a summary of the aggregate fair value of the real estate fund investments on our consolidated balance sheet.

(Amounts in thousands) Balance Sheet	The Predecessor As of December 31, 2013
Real Estate Fund Investments:	
Property Funds	$ 2,081,259
Alternative Investment Funds	77,630
Total	$ 2,158,889

Below is a summary of realized and unrealized gains from real estate fund investments on our consolidated statement of income.

(Amounts in thousands)	The Predecessor		
Income Statement	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Realized gain (loss) on real estate fund investments sold	$ 43,309	$ (694)	$ 42,128
Previously recorded unrealized (gain) loss on sale	(10,405)	10,571	(39,201)
Realized gain on real estate fund investments	32,904	9,877	2,927
Unrealized gain on real estate fund investments	96,450	322,176	156,272
Realized and unrealized gain from real estate fund investments	129,354	332,053	159,199
Realized gain on sale of joint venture interest	-	-	2,000
Realized and unrealized gains, net	$ 129,354	$ 332,053	$ 161,199

Asset Management Fees

Our predecessor earned asset management fees from the Funds it managed. Asset management fees and expenses related to Funds included in the consolidated statements of income are eliminated in combination and consolidation. The effect of fees earned from limited partners is reflected in the allocation of net income attributable to our Predecessor and noncontrolling interests. Asset management fees related to limited partners are reflected as a reduction of net income attributable to noncontrolling interests, which results in a corresponding increase in net income attributable to our Predecessor.

Below is a summary of the asset management fees earned by our Predecessor.

(Amounts in thousands) Income Statement	The Predecessor Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Gross asset management fees	$23,701	$ 26,180	$ 23,701
Eliminated fees[1]	(1,078)	(1,118)	(1,087)
Net asset management fees	$22,623	$ 25,062	$ 22,614

[1] Eliminated fees reflect a reduction in asset management fees from the general partner interest in each of the Funds.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Property Funds

The table below summarizes the Property Funds (including their ownership interest in the underlying properties) as of December 31, 2013.

	As of December 31, 2013									
	1633 Broadway	1301 Ave. of the Americas	31 West 52nd Street	900 Third Avenue	60 Wall Street	425 Eye Street	Liberty Place	1899 Penn Avenue	2099 Penn Avenue	One Market Plaza
Fund I	51.0 %	-	-	-	-	100.0%	-	-	-	-
Fund II	-	-	-	-	46.3 %	-	-	-	-	-
Fund III	-	17.7 %	42.6 %	39.2 %	16.0 %	-	-	-	-	75.0 %
Fund IV	22.2 %	4.0 %	-	44.4 %	-	-	40.8 %	64.9 %	90.6 %	-
Fund IV Cayman	2.3 %	0.4 %	-	4.6 %	-	-	4.2 %	6.7 %	9.4 %	-
Fund V Core	-	19.9 %	8.4 %	-	-	-	23.1 %	11.9 %	-	-
Fund V CIP	-	30.5 %	10.4 %	-	-	-	29.1 %	15.1 %	-	-
Fund V Cayman	-	3.0 %	0.9 %	-	-	-	2.8 %	1.4 %	-	-
Total Property Funds	75.5 %	75.5 %	62.3 %	88.2 %	62.3 %	100.0%	100.0%	100.0%	100.0%	75.0 %
Other Investors	24.5 %	24.5 %	37.7 %	11.8 %	37.7 %	-	-	-	-	25.0 %
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Alternative Investment Funds

As of December 31, 2013, our Alternative Investment Funds had one debt investment secured by equity interests in real estate and two preferred equity investments in real estate. Below is a summary of these investments.

2 Herald Square

The PGRESS Funds own a $12,500,000 preferred equity investment in a partnership that owns 2 Herald Square, a 369,000 square foot office and retail property in New York, New York. The preferred equity has a dividend rate of

10.3%, of which 7.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in April 2017 and has two one-year extension options.

One Court Square

PGRESS and PGRESS-H own a combined 28.0% interest in a $125,000,000 preferred equity investment in a partnership that owns One Court Square, a 1.5 million square foot office building located in Long Island City, New York. The preferred equity has a dividend rate of 15.0%, of which 9.5% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment is redeemable in September 2015 and has a one-year extension option.

666 Fifth Avenue

In December 2008, the PGRESS Funds made a $29,000 mezzanine loan secured by the equity interest in 666 Fifth Avenue. The loan has an interest rate of 6.35% and matures in February 2019.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarizes the balance sheet as of December 31, 2013 and the income statements for the period January 1, 2014 to November 23, 2014 and the years ended December 31, 2013 and 2012 for each of the Property Funds' underlying investments.

(Amounts in thousands)	Property Funds' underlying investments as of December 31, 2013								
Balance Sheet	1633 Broadway	900 Third Ave	31 West 52nd St	1301 Ave of the Americas	One Market Plaza	Liberty Place	1899 Penn. Ave	2099 Penn. Ave	425 Eye St
Real estate, net	$116,380	$135,886	$822,371	$1,676,101	$1,357,166	$147,715	$146,242	$152,845	$162,582
Deferred charges, net	45,189	9,429	29,416	22,974	20,518	480	4,656	-	3,317
Cash and cash equivalents	67,418	12,381	21,663	10,011	7,180	5,797	10,444	3,728	2,150
Restricted cash	-	-	-	26,353	2,187	1,704	-	1,358	4,864
Deferred rent receivable	82,598	11,859	26,820	34,897	20,707	-	2,544	-	5,151
Other assets	3,056	1,619	20,442	29,727	1,605	239	875	150	7,537
Total assets	$314,641	$171,174	$920,712	$1,800,063	$1,409,363	$155,935	$164,761	$158,081	$185,601
Mortgage and notes payable	$926,260	$274,337	$413,490	$1,132,489	$890,478	$84,000	$90,600	$125,525	$124,000
Accounts payable and accruals	13,039	2,896	6,317	18,899	15,827	1,380	1,376	2,468	2,511
Interest rate swap liabilities, net	90,893	26,361	39,308	26,172	113,019	-	-	-	-
Other liabilities	3,522	1,540	195,025	91,886	19,004	1,468	9,036	144	29
Total liabilities	1,033,714	305,134	654,140	1,269,446	1,038,328	86,848	101,012	128,137	126,540
Equity	(719,073)	(133,960)	266,572	530,617	371,035	69,087	63,749	29,944	59,061
	$314,641	$171,174	$920,712	$1,800,063	$1,409,363	$155,935	$164,761	$158,081	$185,601

Total liabilities and equity

(Amounts in thousands)

Statement of Income	1633 Broadway	900 Third Ave	31 West 52nd St	1301 Ave of the Americas	One Market Plaza	Liberty Place	1899 Penn. Ave	2099 Penn. Ave	425 Eye St
	Property Funds' underlying investments for the period ended November 23, 2014								
Rental income	$136,422	$31,219	$67,453	$104,220	$65,314	$5,823	$7,249	$165	$9,501
Tenant reimbursement income	12,742	3,001	5,126	8,252	1,191	1,884	3,648	6	879
Fee and other income	2,951	1,680	3,360	9,667	3,242	50	115	280	319
Total revenue	152,115	35,900	75,939	122,139	69,747	7,757	11,012	451	10,699
Building operating	50,830	14,904	21,516	46,679	25,119	3,911	4,674	4,147	5,148
Related party management fees	2,864	914	1,244	1,580	701	214	254	38	339
Operating	53,694	15,818	22,760	48,259	25,820	4,125	4,928	4,185	5,487
Depreciation and amortization	10,990	6,085	23,438	37,212	31,422	-	3,484	-	5,022
General and administrative	118	113	119	167	4,545	66	58	798	71
Total expenses	64,802	22,016	46,317	85,638	61,787	4,191	8,470	4,983	10,580
Operating income	87,313	13,884	29,622	36,501	7,960	3,566	2,542	(4,532)	119
Unrealized gain on interest rate swaps	25,226	5,759	8,466	12,042	20,848	-	-	-	-
Interest and debt expense	(46,315)	(13,269)	(20,092)	(54,436)	(48,486)	(3,488)	(4,051)	(4,578)	(4,548)
Unrealized appreciation (depreciation) on investment in real estate	-	-	-	-	-	(2,772)	-	(749)	-
Net income (loss) before taxes	66,224	6,374	17,996	(5,893)	(19,678)	(2,694)	(1,509)	(9,859)	(4,429)
Income tax expense	-	-	-	-	-	(105)	53	-	(2,430)
Net income (loss)	$66,224	$6,374	$17,996	$(5,893)	$(19,678)	$(2,799)	$(1,456)	$(9,859)	$(6,859)

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands)	Property Funds' underlying investments for the year ended December 31, 2013								
Statement of Income	1633 Broadway	900 Third Ave	31 West 52nd St	1301 Ave of the Americas	One Market Plaza	Liberty Place	1899 Penn. Ave	2099 Penn. Ave	425 Eye St
Rental income	$130,590	$33,601	$77,257	$97,576	$77,265	$8,421	$9,686	$432	$10,167
Tenant reimbursement income	13,538	3,036	5,100	9,693	1,707	2,528	4,807	74	4
Fee and other income	2,994	732	1,154	2,598	7,778	82	153	58	801
Total revenue	147,122	37,369	83,511	109,867	86,750	11,031	14,646	564	10,972
Building operating	54,867	16,150	22,905	51,247	29,985	4,286	5,066	4,531	5,448
Related party management fees	2,870	980	1,295	1,646	832	275	330	13	354
Operating	57,737	17,130	24,200	52,893	30,817	4,561	5,396	4,544	5,802
Depreciation and amortization	11,187	6,349	22,688	37,075	37,847	-	4,139	-	5,502
General and administrative	251	156	130	215	236	63	69	66	75
Total expenses	69,175	23,635	47,018	90,183	68,900	4,624	9,604	4,610	11,379
Operating income	77,947	13,734	36,493	19,684	17,850	6,407	5,042	(4,046)	(407)
Unrealized gain on interest rate swaps	34,711	9,985	15,993	21,275	36,378	-	-	1,101	427
Interest and debt expense	(52,563)	(14,872)	(22,307)	(68,540)	(55,170)	(3,887)	(4,514)	(5,285)	(5,664)
Unrealized appreciation on investment in real estate	-	-	-	-	-	(2,066)	-	1,965	-
Net income (loss) before taxes	60,095	8,847	30,179	(27,581)	(942)	454	528	(6,265)	(5,644)
Income tax expense	-	-	-	-	-	(45)	(54)	-	2,492
Net income (loss)	$60,095	$8,847	$30,179	$(27,581)	$(942)	$409	$474	$(6,265)	$(3,152)

(Amounts in thousands) Property Funds' underlying investments for the year ended December 31, 2012

Statement of Income	1633 Broadway	900 Third Ave	31 West 52nd St	1301 Ave of the Americas	One Market Plaza	Liberty Place	1899 Penn. Ave	2099 Penn. Ave	425 Eye St
Rental income	$123,508	$31,689	$77,767	$229,943	$75,994	$8,536	$10,502	$5,669	$9,606
Tenant reimbursement income	15,592	2,711	3,354	14,133	1,839	2,624	5,347	3,702	-
Fee and other income	3,576	590	4,883	2,677	6,706	92	195	442	97
Total revenue	142,676	34,990	86,004	246,753	84,539	11,252	16,044	9,813	9,703
Building operating	54,859	15,950	22,498	51,602	29,910	4,316	5,142	4,647	4,319
Related party management fees	2,726	900	1,215	1,607	719	282	358	235	321
Operating	57,585	16,850	23,713	53,209	30,629	4,598	5,500	4,882	4,640
Depreciation and amortization	11,815	5,835	22,980	55,162	36,551	-	4,296	-	5,425
General and administrative	207	144	141	3,687	252	67	64	75	100
Total expenses	69,607	22,829	46,834	112,058	67,432	4,665	9,860	4,957	10,165
Operating income	73,069	12,161	39,170	134,695	17,107	6,587	6,184	4,856	(462)
Unrealized gain on interest rate swaps	7,236	2,365	4,432	16,927	3,219	-	-	3,336	910
Interest and debt expense	(55,435)	(16,492)	(25,207)	(69,928)	(57,116)	(3,887)	(4,514)	(9,168)	(6,726)
Unrealized appreciation on investment in real estate	-	-	-	-	-	(3,785)	-	(15,394)	-
Net income (loss) before taxes	24,870	(1,966)	18,395	81,694	(36,790)	(1,085)	1,670	(16,370)	(6,278)
Income tax expense	-	-	-	-	-	104	(163)	(1)	2,394
Net income (loss) before taxes	$24,870	$(1,966)	$18,395	$81,694	$(36,790)	$(981)	$1,507	$(16,371)	$(3,884)

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NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments in Partially Owned Entities

The following table summarizes our investments in partially owned entities as of December 31, 2014 and 2013

(Amounts in thousands)	Percentage ownership at December 31, 2014		The Company As of December 31, 2014	The Predecessor 2013
Investments:				
712 Fifth Avenue	50.0	%	$1,697	$ -
1325 Avenue of the Americas	n/a		-	20,242
900 Third Avenue [1]	n/a		-	-
Other [2]	9.5	%	4,052	-
			$5,749	$ 20,242

[1] As of December 31, 2013, our Predecessor's investment in 900 Third Avenue had a deficit balance and since our Predecessor had no obligations to fund operating losses, it did not recognize any losses in excess of its investment balance.

[2] Represents our interest in Oder-Center, a shopping center in Brandenburg, Germany.

The following table summarizes income from partially owned entities for the years ended December 31, 2014, 2013 and 2012.

(Amounts in thousands)	Percentage ownership at December 31, 2014		The Company Period from November 24, 2014 to December 31, 2014	The Predecessor Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Our share of Net Income (Loss):						
712 Fifth Avenue	50.0	%	$ 938	$4,141	$2,612	$2,593
1325 Avenue of the Americas	n/a		-	100	(1,550)	145
900 Third Avenue [1]	n/a		-	-	-	1,114
Other [2]	9.5	%	-	-	-	-
			$ 938	$4,241	$1,062	$3,852

[1] As of November 23, 2014, December 31, 2013, and 2012, our Predecessor's investment in 900 Third Avenue had a deficit balance and since our Predecessor had no obligations to fund operating losses, it did not recognize any losses in excess of its investment balance. All unrecognized losses were aggregated to offset

future net income until all unrecognized losses are utilized.

(2) We account for our interest in Oder-Center on a one quarter lag basis. Accordingly, our share of the income for the 38 day period during the fourth quarter will be included in our first quarter of 2015.

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1325 Avenue of the Americas

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a 50.0% interest in a joint venture that owned 1325 Avenue of the Americas, which was accounted for under the equity method. The remaining 50.0% interest was held by a third-party joint venture partner. As part of the Formation Transactions, we acquired the 50.0% interest held by our joint venture partner for $130,381,000 payable in shares of our common stock. The purchase price took into account certain tax benefits to our joint venture partner. The transaction was accounted for as a step acquisition in which we were required to re-measure our existing 50.0% ownership interest at fair value. As a result of the acquisition, we own 100.0% of the property and began consolidating the accounts of the property into our consolidated financial statements from the date of acquisition. In connection therewith, we recognized a $239,716,000 gain, comprised of (i) $175,917,000 representing the excess of the fair value of the property over the carrying amount of our investment in the property, and (ii) $63,799,000 representing a purchase gain.

The table below provides a summary of the allocation of the fair value of the net assets acquired:

(Amounts in thousands)	1325 Avenue of the Americas
Rental property, at cost:	
Land	$ 174,688
Buildings and improvements	370,553
Intangible assets and liabilities:	
Acquired above-market leases	9,704
Acquired in-place leases	46,497
Acquired below-market leases	(12,942)
Net assets acquired	$ 588,500

The tables below reflect the summarized financial information of 1325 Avenue of the Americas at December 31, 2013, and for the period from January 1, 2014 to November 23, 2014, and years ended December 31, 2013 and 2012.

(Amounts in thousands) Balance Sheet	The Predecessor As of December 31, 2013
Rental property, net	$ 209,455
Other assets	56,479
Total assets	$ 265,934

Mortgage and notes payable	$ 220,000
Other liabilities	5,450
Total liabilities	225,450
Equity	40,484
Total liabilities and equity	$ 265,934

(Amounts in thousands) Income Statement	The Predecessor Period from January 1, 2014 to November 13, 2014	Year Ended December 31, 2013	2012
Rental income	$ 33,693	$ 33,397	$ 32,331
Tenant reimbursement income	4,629	5,186	8,332
Fee and other income	1,472	1,203	1,897
Total revenue	39,794	39,786	42,560
Operating	21,381	23,667	23,511
Depreciation and amortization	7,959	7,830	7,377
General and administrative	215	238	231
Total expenses	29,555	31,735	31,119
Operating income	10,239	8,051	11,441
Interest and debt expense	(10,039)	(11,150)	(11,150)
Net income (loss)	$ 200	$ (3,099)	$ 291

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712 Fifth Avenue

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a 50.0% interest in a joint venture that owned 712 Fifth Avenue, which was accounted for under the equity method. Subsequent to the Formation Transactions, we own a 50% interest in this property and continue to account for this investment under the equity method.

Below is a summary of 712 Fifth Avenue's latest available financial information:

(Amounts in thousands)	The Company	The Predecessor
	As of December 31,	
Balance Sheet	2014	2013
Rental property, net	$221,827	$ 226,954
Other assets	46,126	34,117
Total assets	$267,953	$ 261,071
Mortgage and notes payable	$246,500	$ 234,000
Other liabilities	30,321	39,332
Total liabilities	276,821	273,332
Equity	(8,868)	(12,261)
Total liabilities and equity	$267,953	$ 261,071

(Amounts in thousands)	The Company	The Predecessor		
	Period from	Period from January	Year Ended December 31,	
Income Statement	November 24, 2014 to December 31, 2014	1, 2014 to November 23, 2014	2013	2012
Rental income	$ 5,118	$41,710	$ 41,166	$ 35,638
Tenant reimbursement income	607	4,282	4,311	4,453
Fee and other income	232	1,274	1,785	1,429
Total revenue	5,957	47,266	47,262	41,520
Operating	2,586	20,826	22,306	21,321
Depreciation and amortization	1,209	10,127	10,009	8,091
General and administrative	32	182	194	197
Total expenses	3,827	31,135	32,509	29,609
Operating income	2,130	16,131	14,753	11,911
Unrealized gain on interest rate swaps	1,285	5,249	10,031	924

Interest and debt expense	(1,538)	(13,098)	(14,517)	(14,571)
Net income (loss)	$ 1,877	$ 8,282	$ 10,267	$ (1,736)

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900 Third Avenue

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a direct 11.8% interest in the property, which was accounted for under the equity method. The remaining 88.2% interest was held by the Property Funds that were controlled by our Predecessor and was consolidated and accounted for at fair value using investment company accounting. As a part of the Formation Transactions, we acquired 100% of the property. Accordingly, we no longer account for the 11.8% interest under the equity method and began consolidating the accounts of the property into our consolidated financial statements from the date of acquisition.

Below is a summary of 900 Third Avenue's latest available financial information through the date of acquisition:

(Amounts in thousands)	The Predecessor
	As of December
Balance Sheet	31, 2013
Rental property, net	$ 135,886
Other assets	35,288
Total assets	$ 171,174
Mortgage and notes payable	$ 274,337
Other liabilities	30,797
Total liabilities	305,134
Equity	(133,960)
Total liabilities and equity	$ 171,174

	The Predecessor		
(Amounts in thousands)	Period from January 1, 2014	Year Ended December 31,	
Income Statement	to November 23, 2014	2013	2012
Rental income	$ 32,269	$ 33,601	$ 31,689
Tenant reimbursement income	3,001	3,036	2,711
Fee and other income	630	732	590
Total revenue	35,900	37,369	34,990
Operating	15,818	17,130	16,850
Depreciation and amortization	6,085	6,349	5,835
General and administrative	113	156	144
Total expenses	22,016	23,635	22,829
Operating income	13,884	13,734	12,161
Unrealized gain on interest rate swaps	5,759	9,985	2,365

Interest and debt expense	(13,269)	(14,872)	(16,492)
Net income (loss)	$ 6,374	$ 8,847	$ (1,966)

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6. Intangible Assets and Liabilities

Upon acquisition of rental property in connection with the Formation Transactions, we determined and allocated the fair value of acquired assets (including land, building, tenant improvements, above-market leases, and in-place lease intangibles) and the assumed liabilities (including below-market leases) in accordance with ASC 805, Business Combinations, and allocated the purchase price based on these fair values. We recorded acquired leases as intangible assets and/or liabilities at their estimated fair values. If the terms of an operating lease were favorable relative to market terms, we recognized an intangible asset named “above-market leases.” If the terms of an operating lease were unfavorable relative to market terms, we recognized an intangible liability named “below market leases.” If there were in-place lease costs such as lease commissions, real estate taxes, insurances, and tenant improvements, we recognized an intangible asset named “in-place leases.” The amortization of acquired above and below-market leases is recognized over the terms of the respective leases and included as a component of “rental income” on our consolidated statements of income and the amortization of in-place lease asset is recognized over the term of the respective lease and included as a component of “depreciation and amortization expense” on our consolidated statements of income.

The following summarizes our identified intangible assets (primarily acquired above-market leases and acquired in-place leases) and liabilities (primarily acquired below-market leases) as of December 31, 2014.

(Amounts in thousands)	The Company As of December 31, 2014
Intangible assets:	
Gross amount	$ 689,894
Accumulated amortization	(20,509)
	$ 669,385
Intangible liabilities:	
Gross amount	$ 222,985
Accumulated amortization	(3,757)
	$ 219,228

Amortization of acquired below-market leases, net of acquired above-market leases resulted in an increase in rental income of $467,000 for the period from November 24, 2014 to December 31, 2014. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)	
2015	$ 6,278
2016	9,897

2017	8,417
2018	10,383
2019	9,455

Amortization of acquired in-place leases (a component of depreciation and amortization expense) was $17,260,000 for the period from November 24, 2014 to December 31, 2014. Estimated annual amortization of acquired in-place leases for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)	
2015	$ 122,845
2016	80,522
2017	56,356
2018	49,843
2019	45,492

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7. Debt

In connection with the Formation Transactions, we assumed the following debt of our Predecessor, which was repaid on November 24, 2014, upon completion of the Offering.

(Amounts in thousands)	Maturity Date	Repayment Amount
1301 Avenue of the Americas	Jan-2016	$ 1,150,767
1633 Broadway (preferred equity)	Jul-2016	228,314
1325 Avenue of the Americas	May-2016	220,000
2099 Pennsylvania Avenue	Nov-2015	125,075
425 Eye Street	May-2016	124,000
Fund Debt	Dec-2015 to Jul-2017	287,032
Total Principal Repayments		$ 2,135,188
Settlement of interest rate swap liabilities		14,130
Defeasance and debt breakage costs		25,717
Total Debt Repayments		$ 2,175,035

Revolving Credit Facility

On November 24, 2014, we entered into a $1.0 billion senior unsecured revolving credit facility, with an accordion feature to increase the availability to $1.25 billion under certain circumstances. The facility consists of an $800 million tranche (“Tranche A”) and a $200 million tranche (“Tranche B”). The $800 million tranche has a four-year term, with a one-year extension option and the $200 million tranche has a one-year term, with automatic one-year extension options. The facility bears interest at (i) a base rate plus an applicable margin ranging from 0.20% to 0.70% per annum, or (ii) LIBOR plus an applicable margin ranging from 1.20% to 1.70% per annum for borrowings under Tranche A and from 0.80% to 1.30% per annum for borrowings under Tranche B, either of which will be calculated based on our consolidated leverage ratio. If we obtain an investment grade credit rating, the facility will bear interest at (i) a base rate plus an applicable margin ranging from 0.00% to 0.70% per annum or (ii) LIBOR plus an applicable margin ranging from 0.875% to 1.650% per annum for borrowings under Tranche A and from 0.475% to 1.250% per annum for borrowings under Tranche B. As of December 31, 2014, there were no amounts outstanding under our senior unsecured revolving credit facility and $200 million was reserved under a letter of credit.

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The following is a summary of our outstanding debt:

(Amounts in thousands)	Maturity Date	Fixed/Variable Rate	Interest Rate at December 31, 2014		Balance at December 31, 2014	Balance at December 31, 2013
Mortgages and Notes payable						
1633 Broadway						
	Dec-2016	Fixed	6.02	%	$772,100	$-
	Dec-2016	Variable	1.44	%	154,160	-
			5.26	%	926,260	-
900 Third Avenue						
	Nov-2017	Fixed	5.35	%	255,000	-
	Nov-2017	Variable	1.51	%	19,337	-
			5.08	%	274,337	-
31 West 52nd Street						
	Dec-2017	Fixed	5.74	%	337,500	-
	Dec-2017	Variable	1.64	%	75,990	-
			4.99	%	413,490	-
One Market Plaza						
	Dec-2019	Fixed	6.16	%	840,000	-
	Dec-2019	Variable	5.00	%	13,711	-
			6.14	%	853,711	-
Waterview	June-2017	Fixed	5.76	%	210,000	210,000
1899 Pennsylvania Avenue	Nov-2020	Fixed	4.88	%	90,489	-
Liberty Place	June-2018	Fixed	4.50	%	84,000	-
Fund Debt [1]					-	289,859
Total mortgages and notes payable			5.47	%	$2,852,287	$499,859

[1] Repaid upon completion of the Offering.

As of December 31, 2014, principal repayments required for the next five years and thereafter in connection with our mortgages and notes payable are as follows:

(Amounts in thousands)	
2015	$1,373
2016	927,701
2017	899,340

2018	85,588
2019	855,379
Thereafter	82,906

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8.Equity

Common Stock and OP Units

We conduct our business through, and substantially all of our interests in properties are held by the Operating Partnership. We are the sole general partner of, and owned approximately 80.4% of the Operating Partnership as of December 31, 2014. The partnership agreement requires the number of shares of our common stock outstanding to, at all times, equal the number of OP units owned by us. OP units not held by us are held by third-parties, including certain directors, executive officers and other members of management. OP units held by third parties 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 shares of our common stock, on a one-for-one basis. Because the number of shares of our outstanding common stock at all times equals the number of OP units owned by us, the redemption value of one OP unit is equivalent to the market value of one share of our common stock, and distributions to a unitholder is equal to dividends paid to a stockholder. These units are reflected as "noncontrolling interests in Operating Partnership" on our consolidated balance sheet at December 31, 2014, and are recorded at their redemption value. Changes in the value, from period to period, are charged to "additional paid-in-capital."

9. Variable Interest Entities

As of December 31, 2014, we held variable interests in PGRESS-A, PGRESS-H, Residential Fund Feeder and Fund VII-H which were determined to be VIEs. As of December 31, 2013, Paramount Predecessor held variable interests in Fund IV Cayman, Fund V Cayman, PGRESS-A and PGRESS-H which were determined to be VIEs. We are required to consolidate our interests in these entities because we are deemed to be the primary beneficiary and have the power to direct the activities of the entity that most significantly affect economic performance and the obligation to absorb losses and right to receive benefits that could potentially be significant to the entity. The table below summarizes the assets and liabilities of these entities. The liabilities are secured only by the assets of the entities, and are non-recourse to us.

	The Company	The Predecessor
	As of December 31,	
(Amounts in thousands)	2014	2013
Investments, at fair value	$17,136	$ 74,044
Investments, at cost	63,550	-
Cash and restricted cash	4,976	22,837
Other assets, net	-	238
Total VIE assets	$85,662	$ 97,119
Loans payable to non-controlling interests	$42,195	$ -
Preferred equity obligation	-	10,297

Other liabilities	131	383
Total VIE liabilities	$42,326	$ 10,680

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10. Fair Value Measurements

ASC 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 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.

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 (i) real estate fund investments, (ii) marketable securities (which represent the assets in our deferred compensation plan for which there is a corresponding liability on our consolidated balance sheets) and (iii) interest rate swaps. The table below aggregates the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at December 31, 2014 and December 31, 2013, respectively.

	As of December 31, 2014			
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Real estate fund investments:				
Investments in Property Funds	$183,216	$-	$-	$183,216
Investments in Alternative Investment Funds	140,171			140,171
Total real estate fund investments	323,387	-	-	323,387
Marketable securities	20,159	20,159	-	-
Total assets	$343,546	$20,159	$-	$323,387
Interest rate swap liabilities	$194,196	-	$194,196	-
Total liabilities	$194,196	$-	$194,196	$-

	As of December 31, 2013			
(Amounts in thousands)	Total	Level 1	Level 2	Level 3

Real estate fund investments:				
Investments in Property Funds	$2,081,259	$-	$-	$2,081,259
Investments in Alternative Investment Funds	77,630			77,630
Total real estate fund investments	2,158,889	-	-	2,158,889
Marketable securities	26,065	26,065	-	-
Interest rate swap assets (included in Other assets)	1,325	-	1,325	-
Total assets	$2,186,279	$26,065	$1,325	$2,158,889

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Property Funds

At December 31, 2014, the Property Funds had three investments. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 1.0 to 10.0 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space. Similarly, estimated real estate taxes and operating expenses are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs. The fair value of each property is calculated by discounting future cash flows (including anticipated sales proceeds), using an appropriate discount rate. The fair value of the investment is calculated by subtracting property level debt, if any, from the fair value of the property.

Significant unobservable inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on, among other factors, location and type of property. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of the Property Fund investments at December 31, 2014 and 2013.

	As of December 31, 2014		As of December 31, 2013	
Unobservable Quantitative Input	Range	Weighted average (based on fair value of investments)	Range	Weighted average (based on fair value of investments)
Discount rates	6.50%-7.25%	6.83%	6.75% - 7.50%	7.01%
Terminal capitalization rates	5.50 - 6.00%	5.72%	5.00% - 6.50%	5.32%

The above inputs are subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases, or decreases, in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate may be partially offset by a change in the discount rate. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value, respectively.

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Alternative Investment Funds

At December 31, 2014, Alternative Investment Funds had investments in a mezzanine loan and preferred equity. These instruments are classified as Level 3. 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. The balances are updated quarterly by a third party and reviewed by senior management at each reporting period.

Significant unobservable inputs used in determining the fair value of these investments include credit spreads and preferred returns. Significant increases or decreases in any of these inputs in isolation would result in a significantly lower (higher) fair value, respectively. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of the investments in the Alternative Investment Funds at December 31, 2014 and 2013.

	As of December 31, 2014		As of December 31, 2013	
Unobservable Quantitative Input	Range	Weighted average (based on fair value of investments)	Range	Weighted average (based on fair value of investments)
Credit spreads	n/a	n/a	4.75% - 4.75%	4.75%
Preferred return	8.50% - 14.00%	11.07%	10.96% - 14.00%	13.27%

The table below summarizes the changes in the fair value of Real Estate Fund Investments that are classified as Level 3, for the years ended December 31, 2014 and 2013.

	Real Estate Fund Investments for the Year Ended December 31,	
(Amounts in thousands)	2014	2013
Beginning balance	$ 2,158,889	$ 1,840,272
Purchases / Additions	258,677	43,714
Sales / Transfer of assets	(2,222,176)	(57,150)
Net realized gains	32,954	9,877
Net unrealized gains	95,043	322,176

Ending Balance	$ 323,387	$ 2,158,889

Interest Rate Swaps

Interest rate swaps are valued by a third-party specialist, based on a pricing model that incorporates market observable inputs for interest rate curves and unobservable inputs for credit spreads. The interest rate swaps are classified as Level 2 in the valuations hierarchy.

Financial Assets and Liabilities Not Measured at Fair Value

Financial assets not measured at fair value on the consolidated balance sheets consist of cash equivalents, and are classified as Level 1 as their carrying amount approximates their fair value, due to their short-term nature. Financial liabilities not measured at fair value include mortgages and notes payable, credit facility and preferred equity obligations. 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 flows we would be required to make under the instrument. These instruments are classified as Level 2.

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The following is a summary of the carrying amounts and fair value of these financial instruments as of December 31, 2014 and 2013.

	As of December 31, 2014		As of December 31, 2013	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	$401,215	$401,215	$-	$-
Total Assets	$401,215	$401,215	$-	$-

	As of December 31, 2014		As of December 31, 2013	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage and notes payable	$2,852,287	$2,796,842	$499,859	$452,053
Preferred equity obligation	-	-	109,650	113,945
Total Liabilities	$2,852,287	$2,796,842	$609,509	$565,998

11. Leases

We lease office, retail and storage space to tenants under operating leases. These leases provide for the payment of fixed minimum rents over the terms of the respective lease and generally require tenants to reimburse us for operating costs and real estate taxes above their base year costs.

The following is a schedule of future minimum rents under non-cancelable operating leases as of December 31, 2014.

(Amounts in thousands)	
2015	$495,736
2016	475,422
2017	443,245
2018	425,140
2019	408,102

12. Fee and Other Income

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

	The Company	The Predecessor		
	Period from	Period from January 1,		
(Amounts in thousands)	November 24, 2014 to December 31, 2014	2014 to November 23, 2014	Year Ended December 31, 2013	2012
Fee income				
Property management fees	$ 587	$ 15,599	$ 15,641	$ 14,712
Acquisition and disposition fees	510	25,038	2,785	5,462
Construction fees	58	5,718	6,937	2,513
Other fees	21	2,743	1,063	287
Total fee income	1,176	49,098	26,426	22,974
Other income	1,629	-	-	-
Total fee and other income	$ 2,805	$ 49,098	$ 26,426	$ 22,974

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13. Interest and Other Income

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

(Amounts in thousands)	The Company Period from November 24, 2014 to December 31, 2014	The Predecessor Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Mark-to-market of investments in our deferred compensation plans [1]	$ (321)	$ 1,706	$ 5,532	$ 2,071
Interest and other income	142	773	3,875	2,360
	$ (179)	$ 2,479	$ 9,407	$ 4,431

[1] 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 expense.

14. Interest and Debt Expense

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

(Amounts in thousands)	The Company Period from November 24, 2014 to December 31, 2014	The Predecessor Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	2012
Interest and debt expense	$ 43,503 [1]	$ 28,196	$ 29,373	$ 36,908
Amortization of deferred financing costs	240	389	434	434
	$ 43,743	$ 28,585	$ 29,807	$ 37,342

[1] Includes 25,717,000 of defeasance and debt breakage costs from the repayment of debt that was assumed in connection with the Formation Transactions.

15. Acquisition, Transaction and Formation Related Costs

The following table sets forth the details of acquisition, transaction and formation related costs.

(Amounts in thousands)	The Company Period from November 24, 2014 to December 31, 2014
Founders Grants	$ 71,000
Transfer taxes	51,306
Accounting, legal and other professional fees	21,131
	$ 143,437

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16. Incentive Compensation
Stock Based Compensation

In November 2014, we adopted our 2014 Equity Incentive Plan (the “Plan”), under which we expect to grant future cash and equity incentive awards to our executive officers, non-employee directors, eligible employees and other key persons in order to attract, motivate and retain the talent for which we compete. Under the Plan, awards may be granted up to a maximum of 17,142,857 shares, if all awards granted are “full value awards,” as defined, and up to 34,285,714 shares, if all of the awards granted are “not full value awards,” as defined. “Full value awards” are awards such as restricted stock or long-term incentive plan (“LTIP”) units that do not require the payment of an exercise price. “Not full value awards” are awards such as stock options or stock appreciation rights that require the payment of an exercise price. Concurrently with the closing of the Offering, we granted our executive officers, non-employee directors and other employees 1,500,000 options, 885,713 LTIP units, and 5,714 shares or restricted stock pursuant to the Plan. These awards are subject to time-based vesting (as more fully described below). As of December 31, 2014, we have approximately 15,501,430 shares available for future grants under the Plan, if all awards granted are full value awards, as defined.

In addition, we granted our executive officers and other employees 4,057,143 LTIP units as one-time founders’ grants (the “Founders Grant”). These one-time grants were made in recognition of services our executive officers and employees provided to us in connection with the Offering and to create alignment with our stockholders. The Founders Grant was made outside of the Plan and was not subject to vesting; accordingly we expensed $71,000,000 on the date of grant, which is included as a component of “acquisition, transaction and formation related costs” on our consolidated statement of income.

In the period from November 24, 2014 to December 31, 2014, we recognized an aggregate of $391,000, of stock-based compensation expense, which is included as a component of “general and administrative” expenses on our consolidated statement of income. The details of the various components of our stock-based compensation are discussed below.

Stock Options

In connection with the Offering, we granted certain of our executive officers and other employees an aggregate of 1,500,000 stock options. The stock options had a grant-date fair value of $5,085,000, vest over five years and expire 10 years from the date of grant. Compensation expense related to stock option awards is recognized on a straight-line basis over the vesting period. In the period from November 24, 2014 to December 31, 2014, we recognized $79,000 of compensation expense related to stock options. As of December 31, 2014, there was $5,006,000 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 4.9 years. Below is a summary of our stock option activity for the period from November

24, 2014 to December 31, 2014.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Granted	1,500,000	$ 17.50		
Exercised	-	-		
Cancelled or expired	-	-		
Outstanding at December 31, 2014	1,500,000	$ 17.50	9.9	$1,635,000
Options vested and expected to vest at December 31, 2014	1,395,000	$ 17.50	9.9	$1,521,000
Options exercisable at December 31, 2014	-	$ -	-	$-

The fair value of stock options granted in the year ended December 31, 2014 was $3.39 per stock option. The fair value of the option is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions for grants in period from November 24, 2014 to December 31, 2014.

	December 31,2014
Expected volatility	23.0%
Expected life	6.5 years
Risk free interest rate	2.1%
Expected dividend yield	2.3%

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LTIP Units

In connection with the Offering, we granted our executive officers, non-employee directors and other employees an aggregate of 885,713 LTIP units. The LTIP units had a grant-date fair value of $14,700,000, vest over five years and are subject to a taxable book-up event, as defined. Compensation expense related to LTIP unit awards is recognized on a straight-line basis over the vesting period. In the period from November 24, 2014 to December 31, 2014, we recognized $296,000 of compensation expense related to LTIP units. As of December 31, 2014, there was $13,406,000 of total unrecognized compensation cost related to unvested LTIP units, which is expected to be recognized over a weighted-average period of 4.9 years. Below is a summary of LTIP unit activity under the Plan for the period from November 24, 2014 to December 31, 2014.

	Units	Weighted-Average Grant-Date Fair Value
Granted	885,713	$ 16.60
Exercised	-	-
Cancelled or expired	-	-
Unvested at December 31, 2014	885,713	$ 16.60

Restricted Stock

In connection with the Offering, we granted a non-employee director 5,714 shares of restricted stock. The restricted stock had a grant-date fair value of $100,000, vests at the next annual meeting and is being recognized into expense on a straight-line basis over the vesting period. In the period from November 24, 2014 to December 31, 2014, we recognized $16,000 of compensation expense related to restricted stock.

Deferred Compensation

Our Predecessor offered a deferred compensation program to certain management employees. Our Predecessor had established a plan in 1993 (the “1993 Plan”) and a plan in 1999 (the “1999 Plan”). Participants of the deferred compensation plan were permitted to defer certain percentages of their compensation, as defined. The assets of the deferred compensation plan remain the sole property of the Company and are subject to the claims of its general creditors. The assets of the deferred compensation plans are included in “marketable securities” and “restricted cash,” with an offsetting liability included in “other liabilities” on our consolidated balance sheets. The 1993 Plan had a balance of $28,148,000 and $25,134,000 as of December 31, 2014 and 2013, respectively. The 1999 Plan had a balance of $2,209,000 at December 31, 2013. In connection with the Formation Transactions, we assumed the 1993 Plan and liquidated the 1999 Plan and distributed the consideration to its participants.

Income from the mark-to-market of investments in our deferred compensation plan are included in “interest and other income” and this amount in entirely offset by expense from the mark-to-market of plan liabilities, which is included as a component of “general and administrative” expenses on our consolidated statements of income.

Profit Sharing Arrangements

Our Predecessor offered certain management employees an opportunity to co-invest in the Funds through profit sharing arrangements. Pursuant to the management company operating agreement, these employees were entitled to 20% of the fee income and a 50% share of net profit and loss attributable to the general partner of the Funds. The portion allocated to these employees is included as “profit sharing compensation payable” on our Predecessors’ combined consolidated balance sheets and as “profit sharing compensation” on our Predecessors’ combined consolidated statements of income. Upon completion of the Offering, such profit sharing arrangements ended and the related liability was settled by issuing common units to such employees in connection with the Formation Transactions.

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17. Income Taxes

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2014. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes.

We intend to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to federal and state income tax at regular corporate tax rates. Our taxable REIT subsidiaries had a combined current income tax expense of approximately $189,000 for the period from November 24, 2014 to December 31, 2014 and have immaterial differences between the financial reporting and tax basis of assets and liabilities.

The following table reconciles net income attributable to Paramount Group, Inc. to estimated taxable income for the period from November 24, 2014 to December 31, 2014.

(Amounts in thousands)		Period from November 24, 2014 to December 31, 2014	
Net income attributable to Paramount Group, Inc.	$	57,308	
Book to tax differences:			
Straight-line and prepaid rents		6,927	
Depreciation and amortization		11,691	
Stock and unit based compensation		57,740	
Gain on consolidation of a partially owned entity		(192,891	)
Swap breakage costs		(11,316	)
Earnings of partially owned entities		(5,347	)
Other, net		14,000	
Estimated taxable loss	$	(61,888	)

The companies included in our Predecessor's combined consolidated financial statements operated in the U.S. as partnerships or corporations for U.S. federal income tax purposes. Our Predecessor, which owned the general partners of the Funds and consolidated them, was a corporate entity that was subject to federal, state, and local corporate income taxes at the entity level for their share of the profits and losses of the underlying investments. Our Predecessor accounted for income taxes using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within accounts and other payables in the combined consolidated balance sheet. Below is a summary of the components of deferred tax liabilities.

(Amounts in thousands)	For the year ended December 31, 2013
Investment in partnerships/real estate	$ 175,438
Basis adjustments	31,981
Deferred compensation	(9,886)
Net operating losses & carryovers	(9,158)
Valuation allowance	1,710
Other, net	(491)
Total deferred tax liabilities	$ 189,594

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Upon completion of the Formation Transactions, the assets of the partnerships held by our Predecessor were contributed to the Operating Partnership, whose parent and sole general partner was the newly formed REIT. Since a REIT is effectively a non-taxable pass-through entity due to the allowance of a dividends paid deduction for US federal income tax purposes, our Predecessor's deferred tax assets and liabilities associated with these partnerships no longer existed. Therefore, our Predecessor's deferred tax amounts were reversed as an adjustment to equity and is reflected as "deemed contributions" in our Predecessors consolidated statement of changes in equity.

The following table summarizes our Predecessor's tax position.

(Amounts in thousands)	Period from January 1, 2014 to November 23, 2014	For the year ended December 31, 2013	2012
Income before income taxes	$ 127,859	$ 313,868	$ 146,722
Total provision for income taxes	18,461	11,029	6,984
Effective income tax rate	14.4 %	3.5 %	4.8 %

The following table reconciles our Predecessor's provision for income taxes to the U.S. federal statutory tax rate.

	Period from January 1, 2014 to November 23, 2014	For the year ended December 31, 2013	2012
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Income passed through to common unitholders and noncontrolling interests[1]	(24.1%)	(31.6%)	(31.8%)
State and local income taxes	5.5%	0.8%	1.1%
Other	(2.0%)	(0.7%)	0.5%
Effective income tax rate [2]	14.4%	3.5%	4.8%

(1) Includes income that is not taxable to the Predecessor. Such income is directly taxable to the Predecessor's unitholders and the noncontrolling interests.

(2) The effective tax rate is calculated on income (loss) before income taxes

18. Earnings Per Share

The following table provides a reconciliation of net income and the number of common shares used in the computation of basic income per common share - which includes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and diluted income per common share - which includes the weighted average common shares and dilutive share equivalents. Dilutive share equivalents may include our employee stock options and restricted stock.

(Amounts in thousands, except per share amounts)	The Company Period from November 24, 2014 to December 31, 2014
Numerator:	
Net income attributable to Paramount Group, Inc. - basic and diluted	$ 57,308
Denominator:	
Denominator for basic income per share - weighted average shares	212,107
Effect of dilutive employee stock options and restricted share awards (1)	1
Denominator for diluted income per share - weighted average shares	212,108
Income per share - basic and dilluted	$ 0.27

(1) The effect of dilutive securities excludes an aggregate of 53,043 weighted average share equivalents as their effect was anti-dilutive.

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19. Summary of Quarterly Results (unaudited)

The quarterly results of operations of our company and our Predecessor for the years ended December 31, 2014 and 2013 are as follows:

(Amounts in thousands, except per share amounts)	Revenues	Net (Loss) Income attributable to the Predecessor	Net Income attributable to the Company	Net Income Per Common Share Basic	Net Income Per Common Share Diluted
The Company:					
November 24, 2014 to December 31, 2014	$66,135	$ -	$ 57,308	$0.27	$ 0.27
The Predecessor:					
October 1, 2014 to November 23, 2014	$36,043	$ (968)			
September 30, 2014	71,392	12,904			
June 30, 2014	58,328	5,178			
March 31, 2014	61,626	4,396			
December 31, 2013	$225,890	$ 7,743			
September 30, 2013	28,395	3,306			
June 30, 2013	135,032	4,075			
March 31, 2013	30,573	1,390			

20. Related Party
Employee Loan

At December 31, 2013, we had a $3,000,000 loan receivable from an employee. The loan was made by our Predecessor. On November 21, 2014, the loan was repaid.

Due to Affiliates

Includes a $24,500,000 note payable to CNBB-RDF Holdings, LP, which is an entity owned by Maren Otto, Katharina Otto-Bernstein and Alexander Otto, and a $2,799,000 million 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 the Formation Transactions.

21. Commitments and Contingencies

Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry to insure against liability claims and related defense costs. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of flood and earthquake shock. 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, which insure fee title to our real 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. In addition, for properties we may self-insure certain portions of our insurance program, and therefore, use our own funds to satisfy those limits, when applicable. 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 the opinion of our management, 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, 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 requires compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our senior unsecured revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2014, 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 the four-year anniversary of the sale of its interest in 718 Fifth Avenue upon 12 months written notice with the actual purchase occurring no earlier than the five-year anniversary of the sale of its interest in 718 Fifth Avenue. 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.

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22. Segments Disclosure

Upon completion of the Offering and Formation Transactions, we acquired substantially all of the assets of our Predecessor and substantially all of the assets of the Property Funds that it controlled. Our business, post the Formation Transactions, is comprised of one reportable segment. We have determined that our properties have similar economic characteristics to be aggregated into one reportable segment (operating, leasing and managing office properties). Our determination was based, in part, on our method of internal reporting.

The following tables provide selected results for each reportable segment for the years ended December 31, 2014, 2013 and 2012.

	Period from November 24, 2014 to December 31, 2014		
(Amounts in thousands)	Owned Properties	Other	Total
Income Statement data:			
Revenues			
Rental income	$57,169	$296	$57,465
Tenant reimbursement income	5,865	-	5,865
Fee and other income	1,629	1,176	2,805
Total revenues	64,663	1,472	66,135
Total expenses	61,091	1,608	62,699
Operating income	3,572	(136)	3,436
Income from real estate fund investments	-	1,412	1,412
Income from partially owned entities	938	-	938
Unrealized gain on interest rate swaps	15,084	-	15,084
Interest and other income (loss), net	30	(209)	(179)
Interest and debt expense	(41,633)	(2,110)	(43,743)
Acquisition, transaction and formation related costs	-	(143,437)	(143,437)
Gain on consolidation of a partially owned entity	-	239,716	239,716
Net (loss) income before income taxes	(22,009)	95,236	73,227
Income tax expense	(475)	(30)	(505)
Net (loss) income	$(22,484)	$95,206	$72,722
Balance Sheet data:			
Total assets	$8,345,966	$684,475	$9,030,441
Total liabilities	3,350,798	124,690	3,475,488
Total equity	$4,995,168	$559,785	$5,554,953

Net Operating Income ("NOI")

Net (loss) income	$(22,484)	$95,206	$72,722
Add:			
Depreciation and amortization expense	34,378	103	34,481
General and administrative expenses	91	2,116	2,207
Interest and debt expense	41,633	2,110	43,743
Acquisition, transaction and formation related costs	-	143,437	143,437
Income tax expense	475	30	505
NOI from partially owned entities	1,680	-	1,680
Less:			
Income from partially owned entities	(938)	-	(938)
Fee income	-	(1,176)	(1,176)
Unrealized gains on interest rate swaps	(15,084)	-	(15,084)
Interest and other income (loss), net	(30)	209	179
Gain on consolidation of a partially owned entity	-	(239,716)	(239,716)
Net operating income	$39,721	$2,319	$42,040

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Our Predecessor historically operated an integrated business that currently consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds, and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment

	Period from January 1, 2014 to November 23, 2014				
(Amounts in thousands)	Owned Properties	Managed Funds	Management Company	Eliminations	Total
Income Statement data:					
Revenues					
Rental income	$27,774	$2,434	$ -	$ -	$30,208
Tenant reimbursement income	1,646	-	-	-	1,646
Distributions from real estate fund investments	-	17,083	-	-	17,083
Realized and unrealized gains, net	-	129,354	-	-	129,354
Fee and other income	-	-	74,686	(25,588)	49,098
Total revenues	29,420	148,871	74,686	(25,588)	227,389
Total expenses	20,553	27,995	54,032	(25,588)	76,992
Operating income	8,867	120,876	20,654	-	150,397
Income from partially owned entities	4,241	-	48,683	(48,683)	4,241
Unrealized loss on interest rate swaps	-	(673)	-	-	(673)
Interest and other income, net	2,004	388	87	-	2,479
Interest and debt expense	(11,157)	(17,323)	(105)	-	(28,585)
Net income before income taxes	3,955	103,268	69,319	(48,683)	127,859
Income tax expense	-	-	(18,461)	-	(18,461)
Net income (loss)	3,955	103,268	50,858	(48,683)	109,398
Net income attributable to noncontrolling interests	-	(87,888)	-	-	(87,888)
Net income (loss) attributable to the Predecessor	$3,955	$15,380	$ 50,858	$ (48,683)	$21,510

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	For the year ended December 31, 2013				
(Amounts in thousands)	Owned Properties	Managed Funds	Management Company	Eliminations	Total
Income Statement data:					
Revenues					
Rental income	$30,406	$-	$ -	$ -	$30,406
Tenant reimbursement income	1,821	-	-	-	1,821
Distributions from real estate fund investments	-	29,184	-	-	29,184
Realized and unrealized gains, net	-	332,053	-	-	332,053
Fee and other income	-	-	54,298	(27,872)	26,426
Total revenues	32,227	361,237	54,298	(27,872)	419,890
Total expenses	26,369	29,417	60,385	(27,872)	88,299
Operating income (loss)	5,858	331,820	(6,087)	-	331,591
Income from partially owned entities	1,062	-	74,695	(74,695)	1,062
Unrealized gain on interest rate swaps	-	1,615	-	-	1,615
Interest and other income, net	5,891	1,152	2,364	-	9,407
Interest and debt expense	(12,443)	(17,219)	(145)	-	(29,807)
Net income before income taxes	368	317,368	70,827	(74,695)	313,868
Income tax expense	-	-	(11,029)	-	(11,029)
Net income	368	317,368	59,798	(74,695)	302,839
Net income attributable to noncontrolling interests	-	(286,325)	-	-	(286,325)
Net income attributable to the Predecessor	$368	$31,043	$ 59,798	$ (74,695)	$16,514
Balance Sheet data:					
Total assets	$552,474	$2,329,153	$ 373,173	$ (332,109)	$2,922,691
Total liabilities	350,884	508,481	96,596	(58,714)	897,247
Total equity	$201,590	$1,820,672	$ 276,577	$ (273,395)	$2,025,444

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	For the year ended December 31, 2012				
(Amounts in thousands)	Owned Properties	Managed Funds	Management Company	Eliminations	Total
Income Statement data:					
Revenues					
Rental income	$29,773	$-	$ -	$ -	$29,773
Tenant reimbursement income	1,543	-	-	-	1,543
Distributions from real estate fund investments	-	31,326	-	-	31,326
Realized and unrealized gains, net	-	157,199	4,000	-	161,199
Fee and other income	-	-	50,148	(27,174)	22,974
Total revenues	31,316	188,525	54,148	(27,174)	246,815
Total expenses	22,206	27,275	55,489	(26,967)	78,003
Operating income (loss)	9,110	161,250	(1,341)	(207)	168,812
Income from partially owned entities	3,852	-	57,587	(57,587)	3,852
Unrealized gain on interest rate swaps	-	6,969	-	-	6,969
Interest and other income, net	3,472	113	846	-	4,431
Interest and debt expense	(11,704)	(25,599)	(39)	-	(37,342)
Net income before income taxes	4,730	$142,733	$ 57,053	$ (57,794)	$146,722
Income tax expense	-	-	(6,984)	-	(6,984)
Net income	4,730	142,733	50,069	(57,794)	139,738
Net income attributable to noncontrolling interests	-	(137,443)	-	-	(137,443)
Net income attributable to the Predecessor	$4,730	$5,290	$ 50,069	$ (57,794)	$2,295
Balance Sheet data:					
Total assets	$671,124	$1,917,245	$ 307,933	$ (284,575)	$2,611,727
Total liabilities	347,300	500,512	78,106	(52,417)	873,501
Total equity	$323,824	$1,416,733	$ 229,827	$ (232,158)	$1,738,226

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in 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 December 31, 2014, the end of the period covered by this Report, 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.

Management's Report on Internal Control over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

Not applicable

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 will be set forth in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders (which is scheduled to be held on May 21, 2015), to be filed pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, or our Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15.EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

(a) The following documents are filed as part of this report
1. The combined consolidated financial statements are set forth in Item 8 of this Annual Report on Form 10-K
2. The following financial statement schedules should be read in conjunction with the financial statements included:

		Pages in this Annual Report on Form 10-K
i	Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2014, 2013 and 2012	114
ii	Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2014, 2013 and 2012	115

(b) The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 118 of this Annual Report, on Form 10-K, and is incorporated herein by reference.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
(Amounts in thousands)	Balance at Beginning of Year	Additions Charged Against Operations	Uncollectible accounts Written-off	Balance at End of Year
For the period from November 24, 2014 to December 31, 2014				
Allowance for doubtful accounts	$ 257	$ 76	$ -	$ 333

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION

A	COLUMN B	COLUMN C		COLUMN D		COLUMN E			COLUMN F	COLUMN G	COLUMN H	C I v c
n		Initial cost to company		Costs capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated depreciation			i i
	Encumbrances	Land	Building and Improvements	Land	Building and Improvements	Land	Buildings and Improvements	Total [1]	and amortization	Date of construction	Date acquired	s i
	$926,260	$502,846	$1,398,341	$-	$171	$502,846	$1,398,512	$1,901,358	$(4,327)	1971	11/2014	5 Y
ue	-	406,039	1,051,697	-	575	406,039	1,052,272	1,458,311	(3,198)	1963	11/2014	5 Y
nd	413,490	221,318	604,994	-	690	221,318	605,684	827,002	(1,778)	1987	11/2014	5 Y
ue	-	174,688	370,553	-	609	174,688	371,162	545,850	(1,318)	1989	11/2014	5 Y
	274,337	103,741	296,031	-	465	103,741	296,496	400,237	(1,007)	1983	11/2014	5 Y
	1,614,087	1,408,632	3,721,616	-	2,510	1,408,632	3,724,126	5,132,758	(11,628)			
	-	93,669	98,088	-	586	93,669	98,674	192,343	(372)	1973	11/2014	5 Y
ce	84,000	46,401	96,422	-	669	46,401	97,091	143,492	(308)	1993	11/2014	5 Y
a	90,489	52,568	94,874	-	80	52,568	94,954	147,522	(287)	1915	11/2014	5 Y
a	-	50,631	103,992	-	1,781	50,631	105,773	156,404	(327)	2001	11/2014	5 Y
	210,000	78,300	297,669	-	36,434	78,300	334,103	412,403	(64,209)	2007	05/2007	5 Y

,	384,489	321,569	691,045	-	39,550	321,569	730,595	1,052,164	(65,503)			
	853,711	288,744	988,014	-	2,419	288,744	990,433	1,279,177	(3,117)	1976	11/2014	5 Y
	853,711	288,744	988,014	-	2,419	288,744	990,433	1,279,177	(3,117)			
nt	-	23,126	41,524	-	1,437	23,126	42,961	66,087	(802)		03/2014	5 Y
	-	-	-	-	53	-	53	53	-		11/2014	5 Y
	$2,852,287	$2,042,071	$5,442,199	$-	$45,969	$2,042,071	$5,488,168	$7,530,239	$(81,050)			

(6) The net basis of the Company's assets and liabilities for tax purposes is approximately $2.6 billion lower than the net amount reported for financial statement purposes.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION

	Year Ended December 31,		
(Amounts in thousands)	2014	2013	2012
Rental Property			
Balance at beginning of period	$414,998	$414,855	$416,864
Acquisitions	64,650	-	-
Acquisition of properties in connection with the Formation Transactions	7,043,650	-	-
Additions during the period:			
Land	-	-	-
Buildings and improvements	9,676	147	188
Assets sold and written-off	(2,735)	(4)	(2,197)
Balance at end of period	$7,530,239	$414,998	$414,855
Accumulated Depreciation			
Balance at beginning of period	$57,689	$48,425	$39,637
Additions charged to expense	26,096	9,268	8,788
Accumulated depreciation on assets sold and written-off	(2,735)	(4)	-
Balance at end of period	$81,050	$57,689	$48,425

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:	March 19, 2015	By:	/s/ Albert Behler (Albert Behler)	Chairman, Chief Executive Officer and President
Date:	March 19, 2015	By:	/s/ David Spence (David Spence)	Executive Vice President, Chief Financial Officer and Treasurer
Date:	March 19, 2015	By:	/s/ Wilbur Paes (Wilbur Paes)	Senior Vice President, Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following

persons on behalf of the registrant and in the capacities and on the dates indicated.

	Signature	Title	Date
By:	/s/ Albert Behler (Albert Behler)	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 19, 2015
By:	/s/ David Spence (David Spence)	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 19, 2015
By:	/s/ Wilbur Paes	Senior Vice President, Chief Accounting Officer	March 19, 2015

(Wilbur Paes)	(Principal Accounting Officer)	
By: /s/ Thomas Armbrust (Thomas Armbrust)	Director	March 19, 2015
By: /s/ Dan Emmett (Dan Emmett)	Director	March 19, 2015
By: /s/ Lizanne Galbreath (Lizanne Galbreath)	Director	March 19, 2015
By: /s/ Peter Linneman (Peter Linneman)	Director	March 19, 2015
By: /s/ David O'Connor (David O'Connor)	Director	March 19, 2015
By: /s/ Katharina Otto-Bernstein (Katharina Otto-Bernstein)	Director	March 19, 2015

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of Paramount Group, Inc., incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 14, 2014.
3.2*	Amended and Restated Bylaws of Paramount Group, Inc.
4.1	Specimen Certificate of Common Stock of Paramount Group, Inc., incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.1	Amended and Restated Limited Partnership Agreement of Paramount Group Operating Partnership LP, dated as of November 21, 2014, incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.
10.2	Registration Rights Agreement by and among Paramount Group, Inc. and the holders named therein, dated November 6, 2014, incorporated by reference to Exhibit 10.2 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.3	Registration Rights Agreement among Paramount Group, Inc. and the persons named therein, dated November 6, 2014, incorporated by reference to Exhibit 10.3 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.4	Stockholders Agreement between Paramount Group, Inc. and Maren Otto, Alexander Otto and Katharina Otto-Bernstein, dated November 6, 2014, incorporated by reference to Exhibit 10.4 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.5*†	2014 Equity Incentive Plan.
10.6	Form of Indemnification Agreement between Paramount Group, Inc. and each of its Directors and Executive Officers, incorporated by reference to Exhibit 10.6 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.7	Contribution Agreement by and among Paramount Group Real Estate Fund I, L.P., Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.7 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.8	Contribution Agreement by and among Paramount Group Real Estate Fund III, L.P., Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by

reference to Exhibit 10.8 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.9	Contribution Agreement by and among Paramount Group Real Estate Fund IV, L.P., Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.9 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.10	Contribution Agreement by and among PGREF IV Parallel Fund Sub US, LP, Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.10 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.11	Transfer Agreement by and among Paramount Group Real Estate Fund V (Core), L.P., Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.11 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.12	Contribution Agreement by and among PGREF V (Core) Parallel Fund Sub US, LP, Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.12 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.13 Contribution Agreement by and among Paramount Group Real Estate Fund V (CIP), L.P., Paramount Group Operating Partnership LP and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.14 Contribution Agreement by and among Arcade Rental Investments, Inc., Paramount Group, Inc. and the Stockholder of Arcade Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.14 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.15 Contribution Agreement by and among Arcade Rental Investments 2, Inc., Paramount Group, Inc. and the Stockholder of Arcade Rental Investments 2, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.15 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.16 Contribution Agreement by and among Marathon Rental Investments, Inc., Paramount Group, Inc. and the Stockholder of Marathon Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.16 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.17 Agreement and Plan of Merger by and among Cosmos Rental Investments, Inc., Paramount Group, Inc. and the Stockholder of Cosmos Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.17 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.18 Agreement and Plan of Merger by and among Paramount Group, Inc., a Delaware corporation, Paramount Group, Inc. and the Stockholders of Paramount Group, Inc., a Delaware corporation, dated as of November 6, 2014, incorporated by reference to Exhibit 10.18 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.19 Stock Purchase Agreement by and between Paramount Group, Inc. and the Stockholder of Forum Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.19 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.20 Stock Purchase Agreement by and among Paramount Group, Inc., the Stockholders of Imperial Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.20 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.21 Stock Purchase Agreement by and among Paramount Group, Inc., the Stockholders of Milton Rental Investments, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.21 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.22 Share Purchase Agreement, dated as of October 31, 2014, between Paramount Group, Inc. and WvF 718, L.P., incorporated by reference to Exhibit 10.22 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.23 Share Purchase Agreement, dated as of November 6, 2014, between Paramount Group, Inc. and the individuals and entity listed therein, incorporated by reference to Exhibit 10.23 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.24 Contribution Agreement by and between Albert Behler, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.24 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.25 Contribution Agreement by and between Jolanta Bott, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.25 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.26 Contribution Agreement by and between David Spence, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.26 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.27 Contribution Agreement by and between Daniel Lauer, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.27 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on

November 12, 2014.

10.28 Contribution Agreement by and between Vito Messina, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.28 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.29 Contribution Agreement by and between Ralph DiRuggiero, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.29 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.30 Contribution Agreement by and between Gage Johnson, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.30 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.31 Contribution Agreement by and between Theodore Koltis, Paramount Group Operating Partnership LP, and Paramount Group, Inc., dated as of November 6, 2014, incorporated by reference to Exhibit 10.31 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.32 Agreement and Plan of Merger by and among Paramount Group, Inc., WvF 1325, Inc., WvF 1325, L.P., US Real Estate Holding AG and WvF, L.P., dated as of October 31, 2014, incorporated by reference to Exhibit 10.32 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.33 Purchase and Sale Agreement of Ownership Interests in PGREF I Paramount Plaza, L.P., by and between BCSP 1633 Broadway, LLC, as Seller, and Paramount Development and Investment, Inc., as Purchaser, PGREF I Paramount Plaza GP, LLC and Paramount Group, Inc., a Delaware corporation, dated as of September 4, 2014, incorporated by reference to Exhibit 10.33 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.34 Purchase and Sale Agreement of Ownership Interests in PGREF V 1301 Sixth Holding LP, by and between PGREF V 1301 Sixth Investors I LP, as Seller, Paramount Development and Investment, Inc., as Purchaser, and PGREF V 1301 Sixth Investors GP LLC, dated as of July 23, 2014, incorporated by reference to Exhibit 10.34 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.35 First Amendment to Purchase and Sale Agreement by and among PGREF V 1301 Sixth Investors I LP, as Seller, Paramount Development and Investment, Inc., as Purchaser, PGREF V 1301 Sixth Investors GP LLC, Commonwealth Land Title Insurance Company and First American Title Insurance Company, dated as of September 26, 2014, incorporated by reference to Exhibit 10.35 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.36 Purchase Option Agreement for Purchase and Sale of Direct and Indirect Limited Partnership Interests in PGREF II 60 Wall Street Investors, L.P., by and between Paramount Development and Investment, Inc., and Paramount Group Real Estate Fund II, L.P. and Paramount Group Real Estate Fund III, L.P., dated as of June 27, 2014, incorporated by reference to Exhibit 10.36 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.37 Consent and Tag-Along Agreement among Paramount Development and Investment, Inc., SSF III 60 Wall JV LLC, Paramount Group Real Estate Fund II, L.P., PGREF II 60 Wall Investors GP, LLC and PGREF III Wall Street Investors, L.P., with respect to PGREF II 60 Wall Street Investors, L.P., dated as of June 27, 2014, incorporated by reference to Exhibit 10.37 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.38 Put Option Agreement among WvF 2 W. 56, Inc., WvF, Inc., WvF, L.P. and WvF 718, L.P., collectively, as optionee, and 712 Fifth Avenue, L.P., as optionor, dated as of September 10, 2014, incorporated by reference to Exhibit 10.38 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.39 Credit Agreement among Paramount Group Operating Partnership LP, as the Borrower, and Paramount Group, Inc. and certain subsidiaries of Paramount Group, Inc. from time to time party thereto, as Guarantors, Bank of America, N.A., as Administrative Agent and Swing Line Lender, Morgan Stanley Senior Funding, Inc. and Wells Fargo Bank, National Association, as Co-Syndication Agents, U.S. Bank National Association, as Documentation Agent, Bank of America, N.A., Morgan Stanley Bank, N.A., and Wells Fargo Bank, National

Association, as L/C Issuers, and the lenders from time to time party thereto, Bank of America Merrill Lynch, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as Joint Lead Arrangers And Joint Bookrunners, dated as of November 24, 2014, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.40†Employment Agreement among Paramount Group Operating Partnership LP, Paramount Group, Inc. and Albert Behler, dated as of November 18, 2014, incorporated by reference to Exhibit 10.7 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.41†Employment Agreement among Paramount Group Operating Partnership LP, Paramount Group, Inc. and David Spence, dated as of November 18, 2014, incorporated by reference to Exhibit 10.8 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.42†Employment Agreement among Paramount Group Operating Partnership LP, Paramount Group, Inc. and Jolanta Bott, dated as of November 18, 2014, incorporated by reference to Exhibit 10.9 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.43†Paramount Group, Inc. Executive Severance Plan, incorporated by reference to Exhibit 10.10 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.44†The Paramount Group 2005 Nonqualified Deferred Compensation Plan, incorporated by reference to Exhibit 10.44 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.45 Waiver of Ownership Limits granted to The Otto Family by Paramount Group, Inc., dated as of November 18, 2014, incorporated by reference to Exhibit 10.6 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.46 Property Management Agreement, dated as of August 7, 2013, between CNBB Owner LLC and Paramount Group, Inc., a Delaware corporation, incorporated by reference to Exhibit 10.46 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.47 Lease, dated as of October 27, 2014, between Paramount Group, Inc., a Delaware corporation, as Agent for PGREF I 1633 Broadway Tower, L.P. (Landlord), and CNBB-RDF Holdings, LP (Tenant), incorporated by reference to Exhibit 10.47 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.48 Agreement and Plan of Merger by and among Arcade Rental Investments LLC, Paramount Group, Inc. and the stockholder of Arcade Rental Investments LLC, dated as of November 24, 2014, incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.49 Agreement and Plan of Merger by and among Arcade Rental Investments 2 LLC, Paramount Group, Inc. and the stockholder of Arcade Rental Investments 2 LLC, dated as of November 24, 2014, incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

10.50 Agreement and Plan of Merger by and among Marathon Rental Investments LLC, Paramount Group, Inc. and the stockholder of Marathon Rental Investments LLC, dated as of November 24, 2014, incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.

21.1* List of Subsidiaries of the Registrant.

23.1* Consent of Deloitte & Touche LLP.

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.

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* Filed herewith.

† Indicates management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.