

OMNICOM GROUP INC.
Form 10-K
February 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

Commission File Number: 1-10551

OMNICOM GROUP INC.

(Exact name of registrant as specified in its charter)

New York

13-1514814

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

437 Madison Avenue, New York, NY

10022

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 415-3600

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$.15 Par Value

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

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

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 twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 30, 2014 was \$17,860,780,000.

As of January 30, 2015, there were 246,720,508 shares of Omnicom Group Inc. Common Stock outstanding.

Portions of the Omnicom Group Inc. Definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 18, 2015 are incorporated by reference into Part III of this report to the extent described herein.

OMNICOM GROUP INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014
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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements, including statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, the Company or its representatives have made, or may make, forward-looking statements, orally or in writing. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of the Company's management as well as assumptions made by, and information currently available to, the Company's management. Forward-looking statements may be accompanied by words such as "aim," "anticipate," "believe," "plan," "could," "would," "should," "estimate," "expect," "forecast," "guidance," "intend," "may," "will," "possible," "potential," "predict," "project" or similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company's control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include: international, national or local economic, social or political conditions that could adversely affect the Company or its clients; losses on media purchases and production costs incurred on behalf of clients; reductions in client spending, a slowdown in client payments and changes in client advertising, marketing and corporate communications requirements; failure to manage potential conflicts of interest between or among clients; unanticipated changes relating to competitive factors in the advertising, marketing and corporate communications industries; ability to hire and retain key personnel; ability to attract new clients and retain existing clients in the manner anticipated; reliance on information technology systems; changes in legislation or governmental regulations affecting the Company or its clients; conditions in the credit markets; risks associated with assumptions the Company makes in connection with its critical accounting estimates and legal proceedings; and the Company's international operations, which are subject to the risks of currency fluctuation and currency repatriation restrictions. The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that may affect the Company's business, including those described in Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. Except as required under applicable law, the Company does not assume any obligation to update these forward-looking statements.

AVAILABLE INFORMATION

We file annual, quarterly and current reports and any amendments to those reports, proxy statements and other information with the U.S. Securities and Exchange Commission, or SEC. Documents we file with the SEC are available free of charge on our website at www.omnicomgroup.com/investorrelations, as soon as reasonably practicable after such material is filed with the SEC. The information included on or available through our website is not part of this or any other report we file with the SEC. Any document that we file with the SEC is available on the SEC's website at www.sec.gov and also may be read and copied at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room.

PART I

Introduction

This report is both our 2014 annual report to shareholders and our 2014 Annual Report on Form 10-K required under the federal securities laws.

Omnicom Group Inc. is a leading global marketing and corporate communications company. Omnicom's branded networks and agencies provide advertising, marketing and corporate communications services to over 5,000 clients in more than 100 countries. The terms "Omnicom," "the Company," "we," "our" and "us" each refer to Omnicom Group Inc. and our subsidiaries unless the context indicates otherwise.

Item 1. Business

Our Business

Omnicom is a strategic holding company and was formed in 1986 by the merger of several leading advertising, marketing and corporate communications companies. As a leading global provider of advertising, marketing and corporate communications services, we operate in a highly competitive industry. The proliferation of media channels, including the rapid development and integration of interactive technologies and mediums, has fragmented consumer audiences targeted by our clients. These developments make it more complex for marketers to reach their target audiences in a cost-effective way, causing them to turn to service providers such as Omnicom for a customized mix of advertising and marketing services designed to make the best use of their total marketing expenditures.

Our branded networks and agencies operate in all major markets around the world and provide a comprehensive range of services, which we group into four fundamental disciplines: advertising, customer relationship management, or CRM, public relations and specialty communications. The services included in these disciplines are:

advertising	investor relations
brand consultancy	marketing research
content marketing	media planning and buying
corporate social responsibility consulting	mobile marketing
crisis communications	multi-cultural marketing
custom publishing	non-profit marketing
data analytics	organizational communications
database management	package design
direct marketing	product placement
entertainment marketing	promotional marketing
environmental design	public affairs
experiential marketing	public relations
field marketing	reputation consulting
financial/corporate business-to-business advertising	retail marketing
graphic arts/digital imaging	search engine marketing
healthcare communications	social media marketing
instore design	sports and event marketing
interactive marketing	

Although the medium used to reach a client's target audience may differ across each of these disciplines, we develop and deliver the marketing message in a similar way by providing client-specific advertising and marketing services.

Our business model was built and continues to evolve around our clients. While our agencies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is to deliver our services and allocate our resources based on the specific requirements of our

clients. As clients increase their demands for marketing effectiveness and efficiency, they have tended to consolidate their business with larger, multi-disciplinary agencies or integrated groups of agencies. Accordingly, our business model requires that multiple agencies within Omnicom collaborate in formal and informal virtual networks that cut across internal organizational structures to

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execute against our clients' specific marketing requirements. We believe that this organizational philosophy, and our ability to execute it, differentiates us from our competitors.

Our agency networks and our virtual networks provide us with the ability to integrate services across all disciplines and geographies. This means that the delivery of our services can, and does, take place across agencies, networks and geographic regions simultaneously. Further, we believe that our virtual network strategy facilitates better integration of services required by the demands of the marketplace for our services. Our over-arching business strategy is to continue to use our virtual networks to grow our business relationships with our clients.

The various components of our business and material factors that affected us in 2014 are discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A, of this report. None of our acquisitions or dispositions, individually or in the aggregate, in the three year period ended December 31, 2014 was material to our financial position or results of operations. For information concerning our acquisitions, see Note 4 to the consolidated financial statements.

Geographic Regions and Segments

Our revenue is almost evenly divided between our United States and international operations. As discussed more fully in the Critical Accounting Policies section of the MD&A, we conduct our business on a global basis through our five branded agency networks, which operate in the following geographic regions: The Americas, which includes North America and Latin America; EMEA, which includes Europe, the Middle East and Africa; and, Asia Pacific, which includes Australia, China, India, Japan, Korea, New Zealand, Singapore and other Asian countries. The agency networks have regional reporting units that are responsible for the agencies in their region. Agencies within the regional reporting units serve similar clients in similar industries and in many cases the same clients and have similar economic characteristics. Accordingly, we aggregate and monitor our agencies on a regional basis. Given the strategic emphasis we place on the geographic regions in which we operate, we provide financial information by geographic region in the MD&A and Note 8 to the consolidated financial statements.

Our Clients

Our clients operate in virtually every industry sector of the global economy. In many cases, multiple agencies or networks serve different brand and/or product groups within the same clients. For example, in 2014, our largest client was served by more than 200 of our agencies and represented 2.6% of revenue and no other client accounted for more than 2.5% of revenue. In 2014, our top 100 clients, ranked by revenue, were each served, on average, by more than 50 of our agencies and collectively represented approximately 50% of revenue.

Our Employees

At December 31, 2014, we employed approximately 74,000 people. We are not party to any significant collective bargaining agreements. The skill sets of our workforce across our agencies and within each discipline are similar. Common to all is the ability to understand a client's brand or product and their selling proposition and to develop a unique message to communicate the value of the brand or product to the client's target audience. Recognizing the importance of this core competency, we have established tailored training and education programs for our client service professionals around this competency. See the MD&A for a discussion of the effect of salary and related costs on our results of operations.

Executive Officers of the Registrant

At January 30, 2015, our executive officers were:

Name	Position	Age
Bruce Crawford	Chairman of the Board	86
John D. Wren	President and Chief Executive Officer	62
Philip J. Angelaastro		50

	Executive Vice President and Chief Financial Officer	
Michael J. O'Brien	Senior Vice President, General Counsel and Secretary	53
Dennis E. Hewitt	Treasurer	70
Andrew L. Castellaneta	Senior Vice President, Chief Accounting Officer	56
Peter L. Swieciciki	Senior Vice President, Finance and Controller	56
Jonathan B. Nelson	CEO, Omnicom Digital	47

Each executive officer has held his present position for at least five years, except: Mr. Angelastro was named Executive Vice President and Chief Financial Officer in September 2014, prior to that, Mr. Angelastro served as Senior Vice President Finance and Controller since 2002; Mr. Castellaneta was named Senior Vice President, Chief Accounting Officer in January 2015, prior to that he served as Assistant Controller since 2000; and, Mr. Swieciciki was named Senior Vice President, Finance and Controller in January 2015, prior to that he served as Director of Business Operations since 2013 and held various positions with BBDO Worldwide for more than five years.

Additional information about our directors and executive officers will appear in our definitive proxy statement, which is expected to be filed with the SEC by April 8, 2015.

Item 1A. Risk Factors

Adverse global economic conditions could cause clients to reduce spending on advertising, marketing and corporate communications services and may have a material effect on our business, results of operations and financial position.

Adverse global economic conditions have a direct impact on our business, results of operations and financial position. In particular, a contraction in global economic conditions poses a risk that our clients may reduce future spending on advertising, marketing and corporate communications services which could reduce the demand for our services. If domestic or global economic conditions deteriorate, our business, results of operations and financial position could be adversely affected. We will continue to monitor economic conditions closely, client revenue levels and other factors, and may take actions available to us to align our cost structure and manage working capital in response to reductions in client revenue. There can be no assurance whether, or to what extent, our efforts to mitigate any impact of future adverse economic conditions, reductions in our client revenue, changes in client creditworthiness and other developments will be effective.

A reduction in client spending, a delay in client payments or conditions in the credit markets could have a material adverse effect on our working capital.

Global economic uncertainty, turmoil in the credit markets or a contraction in the availability of credit may make it more difficult for us to meet our working capital requirements and could have a material adverse effect on our business, results of operations and financial position. Such events could also lead clients to seek to change their financial relationship with us, and reduce spending on our services, delay the payment for our services or take additional actions that would negatively affect our working capital. In response, we could need to obtain additional financing to fund our day-to-day working capital requirements in such circumstances. Such additional financing may not be available on favorable terms, or at all.

In an economic downturn, the risk of a material loss related to media purchases and production costs incurred on behalf of our clients could significantly increase and methods for managing or mitigating such risk may be less available or unavailable.

In the normal course of our business, our agencies enter into contractual commitments with media providers and production companies on behalf of our clients at levels that can substantially exceed the revenue from our services. These commitments are included in accounts payable when the services are delivered by the media providers or production companies. If permitted by local law and the client agreement, many of our agencies purchase media and production services for our clients as an agent for a disclosed principal. In addition, while operating practices vary by country, media type and media vendor, in the United States and certain foreign markets, many of our agencies' contracts with media and production providers specify that our agencies are not liable to the media and production providers under the theory of sequential liability until and to the extent we have been paid by our client for the media or production services.

Where purchases of media and production services are made by our agencies as a principal or are not subject to the theory of sequential liability, the risk of a material loss as a result of payment default by our clients could increase significantly and such a loss could have a material adverse effect on our business, results of operations and financial position.

In addition, methods of managing the risk of payment defaults, including obtaining credit insurance, requiring payment in advance, mitigating the potential loss in the marketplace or negotiating with media providers, may be less available or unavailable during a severe economic downturn.

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Clients periodically review and change their advertising, marketing and corporate communications services requirements and relationships. If we are unable to remain competitive or retain key clients, our business, results of operations and financial position may be adversely affected.

The markets we operate in are highly competitive and are expected to remain so. Key competitive considerations for retaining existing clients and winning new clients include our ability to develop marketing solutions that meet client needs in a rapidly changing environment, the quality and effectiveness of the services we offer and our ability to serve clients efficiently, particularly large international clients, on a broad geographic basis. While many of our client relationships are long-standing, from time to time clients put their advertising, marketing and corporate communications services business up for competitive review. We have won and lost accounts in the past as a result of these reviews. To the extent that we are not able to remain competitive or retain key clients, our revenue may be adversely affected, which could have a material adverse effect on our business, results of operations and financial position.

The success of our acquiring and retaining clients depends on our ability to avoid and manage conflicts of interest arising from other client relationships, the retention of key personnel and maintaining a highly skilled workforce.

Our ability to retain existing clients and to attract new clients may, in some cases, be limited by clients' perceptions of, or policies concerning, conflicts of interest arising from other client relationships. If we are unable to maintain multiple agencies to manage multiple client relationships and avoid potential conflicts of interests, our business, results of operations and financial position may be adversely affected.

Our employees are our most important assets and our ability to attract and retain key personnel is an important aspect of our competitiveness. If we are unable to attract and retain key personnel, including highly skilled technically proficient personnel, our ability to provide our services in the manner our clients have come to expect may be adversely affected, which could harm our reputation and result in a loss of clients, which could have a material adverse effect on our business, results of operations and financial position.

The loss of several of our largest clients could have a material adverse effect on our business, results of operations and financial position.

In 2014, approximately 50% of our revenue came from our 100 largest clients. Clients generally are able to reduce advertising and marketing spending or cancel projects at any time on short notice for any reason. It is possible that our clients could reduce spending in comparison to historical patterns, or they could reduce future spending. A significant reduction in advertising and marketing spending by our largest clients, or the loss of several of our largest clients, if not replaced by new clients or an increase in business from existing clients, would adversely affect our revenue and could have a material adverse effect on our business, results of operations and financial position.

We rely extensively on information technology systems and cyber incidents could adversely affect us.

We rely on information technology systems and infrastructure to process transactions, summarize results and manage our business, including maintaining client marketing and advertising information. Our information technology systems are potentially vulnerable to system failures and network disruptions, malicious intrusion and random attack. Likewise, data security incidents and breaches by employees and others with or without permitted access to our systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. Additionally, we utilize third parties, including cloud providers, to store, transfer or process data. While we have taken what we believe are prudent measures to protect our data and information technology systems, there can be no assurance that our efforts will prevent system failures or network disruptions or breaches in our systems, or in systems of third parties we use, that could adversely affect our reputation or business.

Government regulation and consumer advocates may limit the scope and content of our services, which could affect our ability to meet our clients' needs, which could have a material adverse effect on our business, results of operations and financial position.

Government agencies and consumer groups directly or indirectly affect or attempt to affect the scope, content and manner of presentation of advertising, marketing and corporate communications services, through regulation or other governmental action, which could affect our ability to meet our clients' needs. Such regulation may seek, among other things, to limit the tax deductibility of advertising expenditures by certain industries or for certain products and services. In addition, there has been a tendency on the part of businesses to resort to the judicial system to challenge advertising practices, which could cause our clients affected by such actions to reduce their spending on our services. Any limitation or judicial action that effects our ability to meet our clients' needs or reduces client spending on our services could have a material adverse effect on our business, results of operations and financial position.

Further, laws and regulations, related to user privacy, use of personal information and Internet tracking technologies have been proposed or enacted in the United States and certain international markets. These laws and regulations could affect the acceptance of new communications technologies and the use of current communications technologies as advertising mediums. These actions could affect our business and reduce demand for certain of our services, which could have a material adverse effect on our business, results of operations and financial position.

We are a global service business and face certain risks of doing business abroad, which could have a material adverse effect on our business, results of operations and financial position.

We face a number of risks associated with a global service business. The operational and financial performance of our businesses are typically tied to overall economic and regional market conditions, competition for client assignments and talented staff, new business and the risks associated with extensive international operations. We also must comply with applicable U.S. and international anti-corruption laws, including the Foreign Corrupt Practices Act of 1977, which can be complex and stringent, in all jurisdictions where we operate. These risks could have a material adverse effect on our results of operations and financial position. For financial information by geographic region, see Note 8 to the consolidated financial statements.

We are exposed to risks from operating in developing countries and high-growth markets.

We conduct business in numerous developing countries and high-growth markets around the world. Our operations outside the United States are exposed to risks that include: slower receipt of payments; social, political and economic instability, currency fluctuation and currency repatriation restrictions. In addition, commercial laws in developing countries and high-growth markets can be undeveloped, vague, inconsistently enforced or frequently changed. If we are deemed not to be in compliance with applicable laws in countries and markets where we conduct business, our prospects and business in those countries and markets could be harmed, which could then have a material adverse effect on our business, results of operations and financial position.

Downgrades of our debt credit ratings could adversely affect us.

Standard and Poor's Rating Service, or S&P, rates our long-term debt BBB+ and Moody's Investors Service, or Moody's, rates our long-term debt Baa1. Our short-term debt ratings are A2 and P2 by the respective rating agencies. Our access to the capital markets could be adversely affected by downgrades in our short-term or long-term debt credit ratings.

We may be unsuccessful in evaluating material risks involved in completed and future acquisitions.

We regularly evaluate potential acquisitions of businesses that we believe are complementary to our businesses and client needs. As part of the evaluation, we conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction. Despite our efforts, we may be unsuccessful in ascertaining or evaluating all such risks. As a result, we might not realize the intended advantages of any given acquisition. If we fail to identify certain material risks from one or more acquisitions, our business, results of operations and financial position could be adversely affected.

Our goodwill may become impaired, which could have a material adverse effect on our business, results of operations and financial position.

In accordance with generally accepted accounting principles in the United States, or U.S. GAAP or GAAP, we have recorded a significant amount of goodwill in our consolidated financial statements resulting from our acquisition activities, which principally represents the specialized know-how of the workforce at the acquired businesses. As discussed in Note 2 to the consolidated financial statements, we review the carrying value of goodwill for impairment annually at the end of the second quarter of the year and whenever events or circumstances indicate the carrying value may not be recoverable. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. While we have concluded, for each year presented in the financial statements included in this report, that our goodwill is not

impaired, future events could cause us to conclude that the asset values associated with a given operation may become impaired. Any resulting non-cash impairment charge could have a material adverse effect on our business, results of operations and financial position.

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We could be affected by future laws or regulations enacted in response to climate change concerns and other actions. Generally, our businesses are not directly affected by current cap and trade laws and other regulatory requirements aimed at mitigating the impact of climate change by reducing emissions or otherwise; although, our businesses could be in the future. However, we could be indirectly affected by increased prices for goods or services provided to us by companies that are directly affected by these laws and regulations and pass their increased costs through to their customers. Further, if our clients are impacted by such laws or requirements, either directly or indirectly, their spending for advertising and marketing services may decline, which could adversely impact our business, results of operations and financial position. Additionally, to comply with potential future changes in environmental laws and regulations, we may need to incur additional costs. At this time, we cannot estimate what impact such costs may have on our business, results of operations and financial position.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have offices throughout the world. The facility requirements of our businesses are similar across geographic regions and disciplines. Our facilities are primarily used by our employees to provide advertising and marketing services to our clients. We believe that our facilities are in suitable and well-maintained condition for our current operations. Our principal corporate offices are located at 437 Madison Avenue, New York, New York; One East Weaver Street, Greenwich, Connecticut and 525 Okeechobee Boulevard, West Palm Beach, Florida. We also maintain executive offices in London, England; Shanghai, China and Singapore.

We lease substantially all our office space under operating leases that expire at various dates. Lease obligations of our foreign operations are generally denominated in their local currency. Office base rent expense was \$361.9 million, \$369.3 million and \$380.1 million in 2014, 2013 and 2012, respectively, net of rent received from non-cancelable third-party subleases of \$11.2 million, \$10.6 million and \$10.4 million, respectively.

Future minimum office base rent under non-cancelable operating leases, net of rent receivable from existing non-cancelable third-party subleases, is (in millions):

	Net Rent
2015	\$316.8
2016	229.2
2017	186.6
2018	151.6
2019	133.5
Thereafter	529.0