

CB RICHARD ELLIS GROUP INC  
Form S-1/A  
November 24, 2004  
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As filed with the Securities and Exchange Commission on November 24, 2004

Registration No. 333-120445

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

AMENDMENT NO. 1  
TO

FORM S-1

## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

**CB Richard Ellis Group, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**6500**  
(Primary Standard Industrial  
Classification Code Number)

**94-3391143**  
(I. R. S. Employer  
Identification No.)

**865 South Figueroa Street, Suite 3400**

**Los Angeles, CA 90017**

**(213) 438-4880**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Kenneth J. Kay**

**Chief Financial Officer**

**CB Richard Ellis Group, Inc.**

(formerly known as CBRE Holding, Inc.)

**865 South Figueroa Street, Suite 3400**

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Los Angeles, CA 90017

(213) 438-4880

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*With copies to:*

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**Stephen L. Burns**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 24, 2004

**15,000,000 Shares**

**CB Richard Ellis Group, Inc.**

**Class A Common Stock**

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The selling stockholders named in this prospectus are selling 15,000,000 shares of Class A common stock. We will not receive any of the proceeds from the shares of Class A common stock sold by the selling stockholders.

Our Class A common stock is listed on the New York Stock Exchange under the trading symbol CBG. On November 23, 2004, the last reported sale price of our Class A common stock on the New York Stock Exchange was \$25.86 per share.

The underwriters have an option to purchase a maximum of 2,250,000 additional shares of Class A common stock from some of the selling stockholders to cover over-allotments of shares.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 10.

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$	\$	\$
Total	\$	\$	\$

Delivery of the shares of Class A common stock will be made on or about \_\_\_\_\_, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse First Boston**

**Citigroup**

**Goldman, Sachs & Co.**

**JPMorgan**

**Lehman Brothers**

**Merrill Lynch & Co.**

**Bear, Stearns & Co. Inc.**

The date of this prospectus is \_\_\_\_\_, 2004.

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**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus.**

*CB Richard Ellis and the CBRE CB Richard Ellis corporate logo set forth on the cover of this prospectus are the registered trademarks of CB Richard Ellis Group, Inc. and its subsidiaries in the United States. All other trademarks or service marks are trademarks or service marks of the companies that use them.*

*Industry and market data used in this prospectus were obtained from our own research, publicly available studies conducted by third parties and publicly available industry and general publications published by third parties and, in some cases, are management estimates based on its industry and other knowledge. While we believe our research and management estimates are reliable, they have not been verified by independent sources.*

*Some figures in this prospectus may not total due to rounding adjustments.*

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**PROSPECTUS SUMMARY**

*This summary may not contain all of the information that may be important to you. You should read this summary together with the entire prospectus, including the information presented under the heading "Risk Factors" and the more detailed information in the financial statements and related notes appearing elsewhere in this prospectus, before making an investment decision. Unless the context indicates otherwise, (1) references in this prospectus to "common stock" mean our Class A common stock and (2) information presented on a "pro forma basis" gives effect to our acquisition of Insignia Financial Group, Inc, or Insignia, on July 23, 2003 and the related transactions and financings as described in this prospectus under the heading "Unaudited Pro Forma Financial Information."*

**CB Richard Ellis Group, Inc.**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003, we operated in 220 offices with over 13,500 employees, excluding affiliate and partner offices, providing commercial real estate services under the "CB Richard Ellis" brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

We have a well-balanced, highly diversified base of clients that includes more than 60% of the *Fortune 100*. Many of our clients are consolidating their commercial real estate-related expenditures with fewer providers and, as a result, awarding their business to those providers that have a strong presence in important markets and the ability to provide a complete range of services worldwide. As a result of this trend and our ability to deliver comprehensive solutions for our clients' needs across a wide range of markets, we believe we are well positioned to capture a growing percentage of our clients' commercial real estate services expenditures.

**Industry Overview**

Our business covers all the various segments that compose the commercial real estate services industry, which includes leasing, sales, property management, facilities management, consulting, mortgage origination and servicing, valuation and appraisal services and investment management. Based upon our experience in these various segments and our management's ongoing internally-generated assessment of the size of the addressable market within each such segment, we believe that the U.S. commercial real estate services industry, excluding investment management, generated approximately \$22 billion in revenues during 2003.

In addition, we review on a quarterly basis various internally-generated statistics and estimates regarding both office and industrial space within the U.S. commercial real estate services industry, including the total available "stock" of rentable space and the average rent per square foot of space. Our management believes that changes in the addressable commercial rental market represented by the product of available stock and rent per square foot provide a reliable estimate of changes in the overall commercial real estate services industry because nearly all segments within the industry are affected by changes in those two measurements. We estimate that the product of available stock and rent per square foot grew at a compound annual growth rate of approximately 4.8% from 1993 through 2003.

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During the next few years, we believe the key drivers of revenue growth for the largest commercial real estate services companies will be the following:

***Outsourcing.*** Motivated by reduced costs, lower overhead, improved execution across markets, increased operational efficiency and a desire to focus on their core competencies, property owners and occupiers have increasingly contracted out for commercial real estate services, including transaction management, facilities management, project management, lease administration, property management and property accounting.

***Consolidation.*** The commercial real estate services industry remains highly fragmented, and we believe that major property owners and corporate users are motivated to consolidate their service provider relationships on a regional, national and global basis to obtain more consistent execution across markets, to achieve economies of scale and enhanced purchasing power and to benefit from streamlined management oversight and the efficiency of single point of contact service delivery.

***Institutional Ownership of Commercial Real Estate.*** Institutional owners, such as real estate investment trusts, or REITs, pension funds, foreign institutions and other financial entities, increasingly are acquiring more real estate assets and financing them in the capital markets. We believe it is likely that these owners will outsource management of their portfolios and consolidate their use of commercial real estate services vendors.

## **Our Regions of Operation and Principal Services**

We have organized our business into, and report our results of operations through, three geographically organized segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, and (3) Asia Pacific.

### **The Americas**

The Americas is our largest segment of operations and provides a comprehensive range of services throughout the United States and in the largest metropolitan regions in Canada, Mexico and other selected parts of Latin America. Our Americas segment accounted for 73.5% of our 2003 revenue and 73.3% of our revenue for the nine months ended September 30, 2004.

Within our Americas segment, we organize our services into the following business areas:

***Advisory Services.*** Our advisory services business line accounted for 59.7% of our 2003 revenue and 61.9% of our revenue for the nine months ended September 30, 2004. We believe we are a market leader for the provision of sales and leasing real estate services in many U.S. metropolitan statistical areas (as defined by the U.S. Census Bureau), including New York, Philadelphia, Washington, D.C., Los Angeles, Atlanta, Chicago, Boston and Dallas.

***Real Estate Services.*** We provide strategic advice and execution assistance to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property.

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***Mortgage Loan Origination and Servicing.*** Our wholly owned subsidiary, L.J. Melody & Company, originates and services commercial mortgage loans generally without incurring principal risk.

***Valuation.*** We provide valuation services that include market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions.

***Outsourcing Services.*** Our outsourcing services business line accounted for 11.2% of our 2003 revenue and 9.5% of our revenue for the nine months ended September 30, 2004. As of December 31, 2003, we managed approximately 422.8 million square feet of commercial space for property owners and occupiers, which we believe represents one of the largest portfolios in the Americas.

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**Asset Services.** We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors.

**Corporate Services.** We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios.

**Investment Management Services.** Our investment management services business line accounted for 2.6% of our 2003 revenue and 1.9% of our revenue for the nine months ended September 30, 2004. Our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., provides investment management services to clients that include pension plans, investment funds, insurance companies and other organizations seeking to generate returns and diversification through investment in real estate and sponsors funds and investment programs that span the risk/return spectrum.

## **Europe, Middle East and Africa**

As of December 31, 2003, our EMEA segment had offices in 28 countries, with its largest operations located in the United Kingdom, France, Spain, the Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services similar to our Americas segment. We hold strong commercial real estate services market positions in a number of European metropolitan areas, including the leading market position in London in terms of 2003 leased square footage. The EMEA segment accounted for 19.2% of our 2003 revenue and 19.8% of our revenue for the nine months ended September 30, 2004.

## **Asia Pacific**

As of December 31, 2003, our Asia Pacific segment had offices in 11 countries, with our principal operations located in China (including Hong Kong), Singapore, South Korea, Japan, Australia and New Zealand. The services we provide in our Asia Pacific segment are generally similar to those provided by our Americas and EMEA segments. We believe we are one of only a few companies that can provide a full range of commercial real estate services to large corporations throughout the Asia Pacific region. The Asia Pacific segment accounted for 7.3% of our 2003 revenue and 6.9% of our revenue for the nine months ended September 30, 2004.

## **Our Competitive Position**

We believe we possess several competitive strengths that position us to capitalize on the positive outsourcing, consolidation and globalization trends in the commercial real estate services industry. Our strengths include the following:

**Global Brand and Market Leading Positions.** For nearly a century, we and our predecessors have built the CB Richard Ellis brand into the largest commercial real estate services provider in the world, based on 2003 revenue.

**Full Service Capabilities.** We provide a full range of commercial real estate services to meet the needs of our clients, and we believe this suite of services represents a broader range globally than nearly all of our competitors.

***Strong Client Relationships and Client-tailored Service.*** We have forged long-term relationships with many of our clients. Our clients include more than 60% of the *Fortune 100*, with nearly half of these clients purchasing more than one service from us.

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***Attractive Business Model.*** Our business model features a diversified client base, recurring revenue streams, a variable cost structure, low capital requirements and strong cash flow generation.

***Strong Management Team and Workforce.*** We have recruited a talented and motivated workforce of over 13,500 employees worldwide, as of December 31, 2003, excluding partner and affiliate offices, who are supported by a strong and deep senior management team consisting of a number of highly-respected executives, most of whom have over 20 years of broad experience in the real estate industry.

Although we believe these strengths will create significant opportunities for our business, you should also be aware of the risks that may impact our competitive position, which include the following:

***Significant Leverage.*** We have significant debt service obligations and the agreements governing our long-term debt impose operating and financial restrictions on the conduct of our business.

***Geographic Concentration.*** A significant portion of our U.S. operations is concentrated in California and in the New York metropolitan area. Adverse effects on these local economies may affect us more than our competitors.

***Exposure to Risks of International Operations.*** Because a significant portion of our revenue is derived from operations outside the United States, we are exposed to exchange rate and other foreign social, political and economic risks.

***Smaller Presence in Some Markets than our Local Competitors.*** Although we have a large global presence, many of our competitors may be larger on a local or regional basis and devote more resources to these markets.

## **Our Growth Strategy**

We believe we have built an integrated, global services platform that is unparalleled in our industry. Our primary business objective is to use this platform to garner a disproportionate share of industry revenues relative to our competitors. We believe this will enable us to maximize and sustain our long-term cash flow and increase long-term stockholder value. Our strategy to achieve these business objectives consists of several elements:

***Increase Revenue from Large Clients.*** We plan to capitalize on our client management strategy for our large clients, by using relationship management teams to provide these clients with a full range of services globally while maximizing our revenue per client.

***Capitalize on Cross-selling Opportunities.*** Because we believe cross-selling represents a large growth opportunity within the commercial real estate services industry, we have dedicated substantial resources and implemented several management initiatives to better enable our workforce to capitalize on these opportunities among our various lines of business.

***Continue to Grow our Investment Management Business.*** Our growing investment management business provides us with an attractive revenue source through fees on assets under management and gains on the sale of assets.

***Focus on Best Practices to Improve Operating Efficiency.*** In 2001, we launched a best practices initiative, branded People, Platform & Performance, to achieve operating cost reductions, and we continue to strive for efficiency improvements and cost savings in order to maximize our operating margins and cash flow.

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**Recent Developments**

For the three months ended September 30, 2004, our revenue increased 35.8% to \$575.0 million from \$423.4 million for the corresponding period in 2003. In addition, we had net income of \$11.9 million for the three months ended September 30, 2004 as compared to a net loss of \$28.4 million for the corresponding period in 2003.

The drivers for this increase in revenue and earnings were (1) significant organic revenue growth fueled by generally improved market conditions in the United States, Europe and Asia, as evidenced by a steady recovery of leasing activity and robust investment property sales during the three months ended September 30, 2004, and (2) continued market share gains in these markets. Our results for the three months ended September 30, 2004 were also favorably impacted by the full-quarter contribution from the Insignia acquisition. In addition, the three months ended September 30, 2003 included significantly greater merger-related, integration and revenue backlog amortization expenses related to the Insignia acquisition than the three months ended September 30, 2004.

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We were incorporated in Delaware on February 20, 2001. Our principal executive offices are located at 865 South Figueroa Street, Suite 3400, Los Angeles, California 90017 and our telephone number is (213) 438-4880. Our website address is *www.cbre.com*. The information contained on, or accessible through, our website is not part of this prospectus.



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**The Offering**

Common stock offered by the selling stockholders	15,000,000 shares (or 17,250,000 shares if the underwriters exercise the over-allotment option in full)
Common stock to be outstanding after the offering	70,438,865 shares
New York Stock Exchange symbol	CBG
Use of proceeds	We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.
Dividend Policy	We do not expect to pay any dividends on our common stock for the foreseeable future.
Risk Factors	You should carefully read and consider the information set forth under the heading titled <b>Risk Factors</b> and all other information set forth in this prospectus before deciding to invest in shares of our common stock.

The number of shares shown to be outstanding after the offering is based upon 70,438,865 shares outstanding as of October 31, 2004, and excludes as of such date:

5,394,949 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,463,498 shares were then exercisable;

1,265,643 shares subject to options issued under our 2004 stock incentive plan at a weighted average exercise price of \$22.33 per share, of which options to purchase 1,715 shares were then exercisable;

2,717,313 shares underlying outstanding stock fund units under our old deferred compensation plan, which are issuable in connection with future distributions under the plan pursuant to elections made by plan participants and all of which were vested; and

5,631,263 additional shares available for future grants under our 2004 stock incentive plan.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their option to purchase up to 2,250,000 additional shares from some of the selling stockholders to cover over-allotments of shares.

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The following table is a summary of our historical consolidated financial data as of and for the periods presented, as well as pro forma financial data giving effect to our acquisition of Insignia and the related transactions and financings for such acquisition for the period presented. On July 20, 2001, we acquired CB Richard Ellis Services, Inc. Except as otherwise indicated below, the statement of operations data, statement of cash flow data and other data for the period ended July 20, 2001 are derived from the consolidated financial statements of CB Richard Ellis Services, our predecessor company. You should read this data along with the information included under the headings titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Financial Information" and the financial statements and related notes included elsewhere in this prospectus. The pro forma financial data do not purport to represent what our results of operations would have been if the Insignia acquisition and the related transactions and financings had occurred as of the date indicated or what our results will be for future periods.

	<b>Pro Forma (1)</b>					<b>Predecessor Company</b>	
	<b>CB Richard Ellis Group</b>						
	<b>Nine Months Ended</b>		<b>Year Ended</b>			<b>Period from</b>	
	<b>September 30,</b>		<b>December 31,</b>			<b>January 1 to</b>	
<b>Year Ended December 31,</b>					<b>Period from February 20 (inception) to December 31,</b>	<b>July 20,</b>	
<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003 (2)</b>	<b>2002</b>	<b>2001 (3)</b>	<b>2001</b>	
(Dollars in thousands, except share data)							
<b>Statement of Operations Data:</b>							
Revenue	\$ 1,948,827	\$ 1,566,907	\$ 1,008,817	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934
Operating income (loss)	17,871	60,772	6,694	25,830	96,736	61,178	(17,048)
Interest expense, net	78,411	49,835	49,115	67,696	57,229	27,290	18,736
Loss on extinguishment of debt	6,639	21,075	6,840	13,479			
Net (loss) income	(43,923)	(1,708)	(24,620)	(34,704)	18,727	17,426	(34,020)
EPS (4)(5):							
Basic	(0.70)	(0.03)	(0.52)	(0.68)	0.45	0.80	(1.60)
Diluted	(0.70)	(0.03)	(0.52)	(0.68)	0.44	0.79	(1.60)
Weighted average shares (5)(6):							
Basic	62,478,565	66,006,231	46,995,364	50,918,572	41,640,576	21,741,351	21,306,584
Diluted	62,478,565	66,006,231	46,995,364	50,918,572	42,185,989	21,920,915	21,306,584
<b>Statement of Cash Flow Data:</b>							
Net cash provided by (used in) operating activities		\$ 38,605	\$ (70,714)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)
Net cash provided by (used in) investing activities		8,821	(252,684)	(284,795)	(24,130)	(261,393)	(12,139)
Net cash (used in) provided by financing activities		(61,721)	328,498	303,664	(17,838)	213,831	126,230
<b>Other Data:</b>							
EBITDA (7)	\$ 135,621	\$ 110,893	\$ 69,447	\$ 132,817	\$ 130,676	\$ 74,930	\$ 11,482

**CB Richard Ellis Group**

As of December 31,

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	As of September 30,	2003	2002	2001
	2004			
<b>(In thousands)</b>				
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	\$ 147,925	\$ 163,881	\$ 79,701	\$ 57,450
Total assets	2,007,347	2,213,481	1,324,876	1,354,512
Long-term debt, including current portion	617,070	802,705	509,715	517,423
Total liabilities	1,522,432	1,873,896	1,067,920	1,097,693
Total stockholders' equity	478,248	332,929	251,341	252,523

*(footnotes on following page)*

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- (1) The unaudited pro forma financial data does not give effect to the refinancing of all outstanding borrowings under our previous amended and restated credit agreement on October 14, 2003 or any financings or debt repayments or redemptions that we completed during 2004, including:

the refinancing of all outstanding borrowings under our amended and restated credit agreement on June 15, 2004;

the open market purchases by us of \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in May and June 2004, and the payment of \$3.1 million in connection with such purchases; and

the issuance and sale by us of 7,726,764 shares of Class A common stock in our initial public offering and the application of the net proceeds we received to (1) the prepayment of \$15.0 million in principal amount of the senior secured term loan under our amended and restated credit agreement in June 2004, (2) the redemption of the remaining \$38.3 million outstanding principal amount of our 16% senior notes due 2011, including payment of a \$3.7 million premium in connection with such redemption, in July 2004, and (3) the redemption of \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, including payment of a \$6.8 million premium in connection with such redemption, in July 2004.

- (2) The actual results for the year ended December 31, 2003 include the activities of Insignia from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (3) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (4) EPS represents (loss) earnings per share. See (loss) earnings per share information in note 14 to our unaudited consolidated financial statements and note 16 to our audited consolidated financial statements, both included elsewhere in this prospectus.
- (5) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock effected on June 7, 2004, because our predecessor was a different legal entity.
- (6) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (7) EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, operating income (loss) and net (loss) income, each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be



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comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

EBITDA is calculated as follows:

	Pro	CB Richard Ellis Group					Predecessor
	Forma						Company
	Year Ended December 31,	Nine Months Ended September 30,	Year Ended December 31,		Period from February 20 (inception) to December 31,	Period from January 1 to July 20,	
	2003	2004	2003	2003	2002	2001	2001
				(In thousands)			
Net (loss) income	\$ (43,923)	\$ (1,708)	\$ (24,620)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add:							
Depreciation and amortization	103,385	40,001	53,571	92,622	24,614	12,198	25,656
Interest expense	83,496	52,138	51,739	71,256	60,501	29,717	20,303
Loss on extinguishment of debt	6,639	21,075	6,840	13,479			
(Benefit) provision for income taxes	(8,891)	1,690	(15,459)	(6,276)	30,106	18,016	1,110
Less:							
Interest income	5,085	2,303	2,624	3,560	3,272	2,427	1,567
<b>EBITDA</b>	<b>\$ 135,621</b>	<b>\$ 110,893</b>	<b>\$ 69,447</b>	<b>\$ 132,817</b>	<b>\$ 130,676</b>	<b>\$ 74,930</b>	<b>\$ 11,482</b>

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**RISK FACTORS**

*Investing in our common stock involves risks. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the related notes and the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations. The risks described below are those that we believe are the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.*

**Risks Relating to Our Business**

**The success of our business is significantly related to general economic conditions and, accordingly, our business could be harmed in the event of an economic slowdown or recession.**

Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can reduce volumes for many of our business lines. These economic conditions could result in a general decline in rents, which in turn would reduce revenue from property management fees and brokerage commissions derived from property sales and leases. In addition, these conditions could lead to a decline in sales prices as well as a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage banking business. If our brokerage and mortgage banking businesses are negatively impacted, it is likely that our other lines of business would also suffer due to the relationship among our various business lines. Further, as a result of our debt level and the terms of our existing debt instruments, our exposure to adverse general economic conditions is heightened.

As an example of this risk, during 2002 and 2001, we were adversely affected by the slowdown in the U.S. economy, which negatively impacted the commercial real estate market generally. This caused a decline in our leasing activities within the United States. Moreover, in part because of the terrorist attacks on September 11, 2001 and the subsequent conflict with Iraq, the economic climate in the United States became very uncertain, which had an adverse effect on commercial real estate market conditions and, in turn, our operating results for 2002 and 2001.

**If the properties that we manage fail to perform, then our financial condition and results of operations could be harmed.**

The revenue we generate from our asset services and facilities management lines of business is generally a percentage of aggregate rent collections from properties, although many management agreements provide for a specified minimum management fee. Accordingly, our success partially depends upon the performance of the properties we manage. The performance of these properties will depend upon the following factors, among others, many of which are partially or completely outside of our control:

our ability to attract and retain creditworthy tenants;

the magnitude of defaults by tenants under their respective leases;

our ability to control operating expenses;

governmental regulations, local rent control or stabilization ordinances which are in, or may be put into, effect;

various uninsurable risks;

financial conditions prevailing generally and in the areas in which these properties are located;

the nature and extent of competitive properties; and

the real estate market generally.



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### **We have numerous significant competitors, some of which may have greater financial resources than we do.**

We compete across a variety of business disciplines within the commercial real estate industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage banking. In general, with respect to each of our business disciplines, we cannot give assurance that we will be able to continue to compete effectively or maintain our current fee arrangements or margin levels or that we will not encounter increased competition. Each of the business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than us, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours.

### **Our international operations subject us to social, political and economic risks of doing business in foreign countries.**

We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2003 and the nine months ended September 30, 2004, we generated approximately 30.2% of our revenue from operations outside the United States. Circumstances and developments related to international operations that could negatively affect our business, financial condition or results of operations include, but are not limited to, the following factors:

difficulties and costs of staffing and managing international operations;

currency restrictions, which may prevent the transfer of capital and profits to the United States;

unexpected changes in regulatory requirements;

potentially adverse tax consequences;

the responsibility of complying with multiple and potentially conflicting laws;

the impact of regional or country-specific business cycles and economic instability;

the geographic, time zone, language and cultural differences among personnel in different areas of the world;

greater difficulty in collecting accounts receivable in some geographic regions such as Asia, where many countries have underdeveloped insolvency laws and clients are often slow to pay, and in some European countries, where clients also tend to delay payments;

political instability; and

foreign ownership restrictions with respect to operations in countries such as China.

We have committed additional resources to expand our worldwide sales and marketing activities, to globalize our service offerings and products in selected markets and to develop local sales and support channels. If we are unable to successfully implement these plans, to maintain adequate long-term strategies that successfully manage the risks associated with our global business or to adequately manage operational fluctuations, our business, financial condition or results of operations could be harmed.

In addition, our international operations and, specifically, the ability of our non-U.S. subsidiaries to dividend or otherwise transfer cash among our subsidiaries, including transfers of cash to pay interest and principal on our debt, may be affected by limitations on imports, currency exchange control regulations, transfer pricing regulations and potentially adverse tax consequences, among other things.

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### **Our revenue and earnings may be adversely affected by foreign currency fluctuations.**

Our revenue from non-U.S. operations is denominated primarily in the local currency where the associated revenue was earned. During 2003 and the nine months ended September 30, 2004, approximately 30.2% of our business was transacted in currencies of foreign countries, the majority of which included the Euro, the British Pound Sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. Thus, we may experience fluctuations in revenues and earnings because of corresponding fluctuations in foreign currency exchange rates. For example, during 2003, the U.S. dollar dropped in value against many of the currencies in which we conduct business.

We have made significant acquisitions of non-U.S. companies, and we may acquire additional foreign companies in the future. As we increase our foreign operations, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Due to the constantly changing currency exposures to which we will be subject and the volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

From time to time, our management uses currency hedging instruments, including foreign currency forward and option contracts, and borrows in foreign currencies. Economic risks associated with these hedging instruments include unexpected fluctuations in inflation rates, which impact cash flow relative to paying down debt, and unexpected changes in the underlying net asset position. These hedging activities also may not be effective.

### **Our growth has depended significantly upon acquisitions, which may not be available in the future.**

A significant component of our growth has occurred through acquisitions, including our acquisition of Insignia on July 23, 2003. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. However, future acquisitions may not be available at advantageous prices or upon favorable terms and conditions. In addition, acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. Future acquisitions and any necessary related financings also may involve significant transaction-related expenses. For example, through September 30, 2004, we have incurred approximately \$200.9 million of transaction-related expenses in connection with our acquisition of Insignia in 2003.

### **If we acquire companies in the future, we may experience integration costs and the acquired businesses may not perform as we expect.**

We have had, and may continue to experience, difficulties in integrating operations and accounting systems acquired from other companies. These difficulties include the diversion of management's attention from other business concerns and the potential loss of our key employees or those of the acquired operations. We believe that most acquisitions will initially have an adverse impact on operating and net income. For example, in 2003 we incurred costs associated with integrating Insignia's business into our existing business lines. Acquisitions also frequently involve significant costs related to integrating information technology, accounting and management services and rationalizing personnel levels. In connection with the Insignia acquisition, we recorded significant charges during 2003 and the first nine months of 2004 relating to integration costs.

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In addition, we have several different accounting systems as a result of acquisitions we have made, including the accounting systems of Insignia. If we are unable to fully integrate the accounting and other systems of the businesses we own, we may not be able to effectively manage our acquired businesses. Moreover, the

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integration process itself may be disruptive to our business as it requires coordination of geographically diverse organizations and implementation of new accounting and information technology systems.

**A significant portion of our operations are concentrated in California and New York, and our business could be harmed in the event of a future economic downturn in the California or New York real estate markets.**

During 2003, approximately 23.8% of our revenue was generated from transactions originating in California and approximately 6.9% was generated from transactions originating in the greater New York metropolitan area. Due to our acquisition of Insignia on July 23, 2003, we expect that the percentage of our revenue generated in the New York metropolitan area in future years will increase. As a result of the geographic concentrations in California and New York, any future economic downturn in the California or New York commercial real estate markets and in the local economies in San Diego, Los Angeles, Orange County or the greater New York metropolitan area could harm our results of operations.

**Our results of operations vary significantly among quarters during each calendar year, which makes comparisons of our quarterly results difficult.**

A significant portion of our revenue is seasonal. Historically, this seasonality has caused our revenue, operating income, net income and cash flow from operating activities to be lower in the first two quarters and higher in the third and fourth quarters of each year. The concentration of earnings and cash flow in the fourth quarter is due to an industry-wide focus on completing transactions toward the fiscal year-end. This has historically resulted in lower profits or a loss in the first and second quarters, with profits growing (or losses decreasing) in each subsequent quarter. This variance among quarters during each calendar year makes comparison between such quarters difficult, but does not generally affect the comparison of the same quarters during different calendar years.

**Our substantial leverage and debt service obligations could harm our ability to operate our business, remain in compliance with debt covenants and make payments on our debt.**

We are highly leveraged and have significant debt service obligations. For 2003, on a pro forma basis, our interest expense was \$83.5 million. Our interest expense for the nine months ended September 30, 2004 was \$52.1 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

Our substantial debt could have other important consequences, which include, but are not limited to, the following:

we could be required to use a substantial portion, if not all, of our cash flow from operations to pay principal and interest on our debt;

our level of debt may restrict us from raising additional financing on satisfactory terms to fund working capital, strategic acquisitions, investments, joint ventures and other general corporate requirements;

our interest expense could increase if interest rates increase because the loans under our amended and restated credit agreement governing our senior secured credit facilities bear interest at floating rates;

our substantial leverage could increase our vulnerability to general economic downturns and adverse competitive and industry conditions, placing us at a disadvantage compared to those of our competitors that are less leveraged;

our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry;

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our failure to comply with the financial and other restrictive covenants in the documents governing our indebtedness, which, among others, require us to maintain specified financial ratios and limit our ability to incur additional debt and sell assets, could result in an event of default that, if not cured or waived, could harm our business or prospects and could result in our filing for bankruptcy; and

from time to time, Moody's Investors Service and Standard & Poor's Ratings Service rate our outstanding senior secured term loan, our 9<sup>3</sup>/<sub>4</sub>% senior notes and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes. These ratings may impact our ability to borrow under any new agreements in the future, as well as the interest rates and other terms of any such future borrowings and could also cause a decline in the market price of our common stock.

We cannot be certain that our earnings will be sufficient to allow us to pay principal and interest on our debt and meet our other obligations. If we do not have sufficient earnings, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell more securities, none of which we can guarantee we will be able to do.

**We are able to incur more indebtedness, which may intensify the risks associated with our substantial leverage, including our ability to service our indebtedness.**

Our amended and restated credit agreement governing our senior secured credit facilities and the indentures relating to our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011 permit us, subject to specified conditions, to incur a significant amount of additional indebtedness, including up to \$150.0 million of additional indebtedness under our revolving credit facility. Our amended and restated credit agreement also permits us to borrow up to \$25.0 million of additional term loans under our term loan facility, subject to the satisfaction of customary conditions. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

**Our debt instruments impose operating and financial restrictions on us, and in the event of a default, all of our borrowings would become immediately due and payable.**

The indentures governing our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011 impose, and the terms of any future debt may impose, operating and other restrictions on us and many of our subsidiaries. These restrictions will affect, and in many respects will limit or prohibit, our ability and our restricted subsidiaries' abilities to:

incur or guarantee additional indebtedness;

pay dividends or make distributions on capital stock or redeem or repurchase capital stock;

repurchase equity interests;

make investments;

create restrictions on the payment of dividends or other amounts to us;

sell stock of subsidiaries;

transfer or sell assets;

create liens;

enter into transactions with affiliates;

enter into sale/leaseback transactions; and

enter into mergers or consolidations.



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In addition, the amended and restated credit agreement governing our senior secured credit facilities includes other and more restrictive covenants and prohibits us from prepaying most of our other debt while debt under our senior secured credit facilities is outstanding. The amended and restated credit agreement also requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

The restrictions contained in our debt instruments could:

limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and

adversely affect our ability to finance ongoing operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these restrictive covenants or the inability to comply with the required financial ratios could result in a default under our debt instruments. If any such default occurs, the lenders under the senior secured credit facilities and the holders of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011, pursuant to the respective indentures, may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. The lenders under our senior secured credit facilities also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under the senior secured credit facilities will have the right to proceed against the collateral granted to them to secure the debt, which collateral is described in the immediately following risk factor. If the debt under the senior secured credit facilities, our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 or our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011 were to be accelerated, we cannot give assurance that these assets would be sufficient to repay our debt.

**If we fail to meet our payment or other obligations under the senior secured credit facilities, the lenders under the senior secured credit facilities could foreclose on, and acquire control of, substantially all of our assets.**

In connection with the incurrence of indebtedness under our senior secured credit facilities and the completion of our acquisition of Insignia, the lenders under our senior secured credit facilities received a pledge of all of our equity interests in our significant domestic subsidiaries, including CB Richard Ellis Services, Inc., CB Richard Ellis Investors, L.L.C., L.J. Melody & Company, Insignia and Insignia/ESG, Inc., which was subsequently renamed CB Richard Ellis Real Estate Services, Inc., and 65% of the voting stock of our foreign subsidiaries that is held directly by us or our domestic subsidiaries. Additionally, these lenders generally have a lien on substantially all of our accounts receivable, cash, general intangibles, investment property and future acquired material property. As a result of these pledges and liens, if we fail to meet our payment or other obligations under the senior secured credit facilities, the lenders under the senior secured credit facilities will be entitled to foreclose on substantially all of our assets and liquidate these assets.

**Our co-investment activities subject us to real estate investment risks which could cause fluctuations in earnings and cash flow.**

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of September 30, 2004, we had committed \$41.7 million to fund future co-investments and we expect approximately \$11.0 million of these commitments will be funded during the fourth quarter of 2004. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments. These adverse consequences could include damage to our reputation with our co-investment partners and clients, as well as the necessity of obtaining alternative funding from other sources that may

be on disadvantageous terms for us and the other co-investors. Providing co-investment financing is also a very important part of CBRE

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Investor's investment management business, which would suffer if we were unable to make these investments. Although our debt instruments contain restrictions that will limit our ability to provide capital to the entities holding direct or indirect interests in co-investments, we may provide this capital in many instances.

Participation in real estate transactions through co-investment activity could increase fluctuations in earnings and cash flow. Other risks associated with these activities include, but are not limited to, the following:

losses from investments;

difficulties associated with international co-investments described in Our international operations subject us to social, political and economic risks of doing business in foreign countries and Our revenue and earnings may be adversely affected by foreign currency fluctuations; and

potential lack of control over the disposition of any co-investments and the timing of the recognition of gains, losses or potential incentive participation fees.

**Our joint venture activities involve unique risks that are often outside of our control which, if realized, could harm our business.**

We have utilized joint ventures for commercial investments and local brokerage and other partnerships both in the United States and internationally, and although we currently have no specific plans to do so, we may acquire minority interests in other joint ventures in the future. In many of these joint ventures, we may not have the right or power to direct the management and policies of the joint ventures and other participants may take action contrary to our instructions or requests and against our policies and objectives. In addition, the other participants may become bankrupt or have economic or other business interests or goals that are inconsistent with ours. If a joint venture participant acts contrary to our interest, it could harm our business, results of operations and financial condition.

**Our success depends upon the retention of our senior management, as well as our ability to attract and retain qualified and experienced employees.**

Our continued success is highly dependent upon the efforts of our executive officers and other key employees, including Ray Wirta, our Chief Executive Officer; Brett White, our President; Kenneth J. Kay, our Chief Financial Officer; Alan C. Froggatt, our President, EMEA; and Robert Blain, our President, Asia Pacific. In addition, Messrs. Wirta, White and Kay currently are not parties to employment agreements with us. If any of our key employees leave and we are unable to quickly hire and integrate a qualified replacement, our business, financial condition and results of operations may suffer. In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified personnel in all areas of our business, including brokerage and property management personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

**If we fail to comply with laws and regulations applicable to real estate brokerage and mortgage transactions and other business lines, we may incur significant financial penalties.**

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Due to the broad geographic scope of our operations and the numerous forms of real estate services performed, we are subject to numerous federal, state and local laws and regulations specific to the services performed. For example, the brokerage of real estate sales and leasing transactions requires us to maintain brokerage licenses in each state in which we operate. If we fail to maintain our licenses or conduct brokerage activities without a license, we may be required to pay fines or return commissions received or have licenses suspended. In addition, because the size and scope of real estate sales transactions have increased significantly during the past several years, both the difficulty of ensuring compliance with the numerous state licensing regimes and the possible loss resulting from non-compliance have increased. Furthermore, the laws and regulations applicable to our business, both in the United States and in foreign countries, also may change in ways that materially increase the costs of compliance.

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### **We may have liabilities in connection with real estate brokerage and property management activities.**

As a licensed real estate broker, we and our licensed employees are subject to statutory due diligence, disclosure and standard-of-care obligations. Failure to fulfill these obligations could subject us or our employees to litigation from parties who purchased, sold or leased properties that we or they brokered or managed. We could become subject to claims by participants in real estate sales claiming that we did not fulfill our statutory obligations as a broker.

In addition, in our property management business, we hire and supervise third-party contractors to provide construction and engineering services for our managed properties. While our role is limited to that of a supervisor, we may be subjected to claims for construction defects or other similar actions. Adverse outcomes of property management litigation could negatively impact our business, financial condition or results of operations.

### **We agreed to retain contingent liabilities in connection with Insignia's sale of substantially all of its real estate investment assets in 2003.**

Immediately prior to the completion of our acquisition of Insignia on July 23, 2003, Insignia completed the sale of substantially all of its real estate investment assets to Island Fund. Under the terms of the purchase agreement, we agreed to retain some contingent liabilities related to these real estate investment assets, including, as of September 30, 2004, approximately \$5.2 million of letters of credit support and a guarantee of an approximately \$1.3 million repayment obligation. Island Fund is obligated to reimburse us for only 50% of any future draws against these letters of credit or the repayment guarantee, and there can be no assurance that Island Fund will be able to satisfy any future requests for reimbursement.

Also in connection with the sale to Island Fund, we agreed to indemnify Island Fund against any losses resulting from the ownership, use or operation of the real estate investment assets prior to the closing of the sale. Although this indemnification obligation to Island Fund is subject to a number of exceptions and limitations, future claims against us pursuant to this indemnification obligation may be material.

In addition, a number of the real estate investment assets that we agreed to sell to Island Fund required the consent of one or more third parties in order to transfer such assets to Island Fund, and some of these third party consents were not obtained prior to the closing and have not been obtained since then. As a result, we continue to hold these real estate investment assets pending the receipt of these third party consents. While we continue to hold these assets, we generally have agreed to provide Island Fund with the economic benefits from these assets, and Island Fund generally has agreed to indemnify us with respect to any losses incurred in connection with our continuing to hold these assets. There can be no assurance, however, that Island Fund actually will be able to provide such indemnification if required to do so at any future date.

## **Risks Relating to the Offering and Ownership of Our Common Stock**

**The future price of our common stock may fluctuate significantly, and you could lose all or part of your investment.**

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The future market price of our common stock could fluctuate significantly, in which case you may not be able to resell your shares at or above the offering price. Fluctuations may occur in response to the risk factors listed in this prospectus and for many other reasons, including:

our financial performance or the performance of our competitors and similar companies;

changes in estimates of our performance or recommendations by securities analysts;

failure to meet financial projections for each fiscal quarter;

technological innovations or other trends in our industry;

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the introduction of new services by us or our competitors;

the arrival or departure of key personnel;

acquisitions, strategic alliances or joint ventures involving us or our competitors; and

market conditions in our industry, the financial markets and the economy as a whole.

In addition, the stock market, in general, has historically experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may cause declines in the market price of our common stock. When the market price of a company's common stock drops significantly, stockholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

**Future sales of common stock by some of our existing stockholders could cause our stock price to decline.**

Affiliates of Blum Capital Partners, L.P., together with some of the other selling stockholders and our employees, will continue to hold a significant portion of our outstanding common stock after the offering. Sales of the shares in the public market, as well as shares we may issue upon the exercise of outstanding options and in connection with future distributions pursuant to stock fund units under our old deferred compensation plan, could cause the market price of our common stock to decline significantly. The perception among investors that these sales may occur could produce the same effect.

Of the outstanding shares after completion of the offering, all of the 15,000,000 shares sold in the offering, all of the 24,229,300 shares issued and sold in our initial public offering and substantially all of our other currently outstanding shares held by our current and former employees and consultants will be freely tradable immediately without further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations under Rule 144. In addition, 25,857,558 shares, which are subject to lock-up agreements with the underwriters, will be eligible for sale at various times beginning 90 days after the date of this prospectus pursuant to Rule 144, including 144(k). The underwriters may release all or a portion of these shares subject to lock-up agreements at any time without notice.

After the offering, stockholders beneficially owning approximately 28.4 million shares of our common stock, will have rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file. By exercising these registration rights and selling a large number of shares, these holders could cause the price of our common stock to decline. Furthermore, if we were to include their shares in a registration statement, those sales could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

See the information under the heading titled "Shares Eligible for Future Sale" for a more detailed description of the shares that will be available for future sales upon completion of the offering.

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**For so long as affiliates of Blum Capital Partners, L.P. continue to own a significant percentage of our common stock they will have significant influence over our affairs and policies, and their interests may be different from yours.**

After the completion of the offering, affiliates of Blum Capital Partners will beneficially own approximately 27.0% of our outstanding common stock. In addition, pursuant to a securityholders' agreement, these affiliates of Blum Capital Partners, subject to the applicable listing rules of the New York Stock Exchange, are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Also pursuant to this agreement, some of our other stockholders will be obligated to vote their shares in favor of the directors nominated by these affiliates of Blum Capital Partners. These other stockholders, collectively, will beneficially own approximately 9.4% of our outstanding common stock after completion of the offering. There are no restrictions in the securityholders' agreement on the ability of these affiliates of Blum Capital Partners to sell their shares to any third party or to assign their rights under the securityholders' agreement in connection with a sale of a majority of their shares to a third party.

For so long as these affiliates of Blum Capital Partners continue to beneficially own a significant portion of our outstanding common stock, they will continue to have significant influence over matters submitted to our stockholders for approval and to exercise significant control over our business policies and affairs, including the following:

the composition of our board of directors and, as a result, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our officers;

determinations with respect to mergers and other business combinations, including those that may result in a change of control;

sales and dispositions of our assets; and

the amount of debt financing that we incur.

The significant ownership position of the affiliates of Blum Capital Partners could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our other stockholders. In addition, we cannot assure you that the interests of the affiliates of Blum Capital Partners will not conflict with yours. For additional information regarding the share ownership of, and our relationships with, these affiliates of Blum Capital Partners, you should read the information under the headings titled "Principal and Selling Stockholders" and "Related Party Transactions."

**Delaware law and provisions of our restated certificate of incorporation and restated by-laws contain provisions that could delay, deter or prevent a change of control.**

The anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. We are currently subject to these Delaware anti-takeover provisions. Additionally, our restated certificate of incorporation and our restated by-laws contain provisions that might enable our management to resist a proposed takeover of our company. These provisions could discourage, delay or prevent a change of control of our company or an acquisition of our company at a price that our stockholders may find attractive. These provisions also may discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. The provisions include:



advance notice requirements for stockholder proposals and nominations; and

the authority of our board to issue, without stockholder approval, preferred stock with such terms as our board may determine.

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For additional information regarding these provisions, you should read the information under the headings titled "Description of Capital Stock," "Anti-Takeover Effects of Certain Provisions of our Restated Certificate of Incorporation and Restated By-Laws," and "Delaware Anti-Takeover Statute."

**A portion of the net proceeds of this offering will be received by affiliates of, and some of the selling stockholders are affiliates of, one of our underwriters. This may present a conflict of interest.**

Affiliates of Credit Suisse First Boston LLC, one of the representatives of the underwriters for the offering, are selling stockholders in the offering. As of October 31, 2004, these affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,420,656 shares, or approximately 2.0% of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling 640,999 shares (or 1,420,656 shares if the underwriters exercise their over-allotment option in full) in the offering, and will receive net proceeds of approximately \$ million (or approximately \$ million if the underwriters exercise their over-allotment option in full). After the offering, these affiliates of Credit Suisse First Boston LLC will beneficially own 1.1% of our common stock (or no shares of our common stock if the underwriters exercise their over-allotment option in full). See the information under the heading titled "Principal and Selling Stockholders" for a more complete description of these affiliates' ownership of our common stock. These affiliations may present a conflict of interest since Credit Suisse First Boston LLC may have an interest in the successful completion of the offering in addition to the underwriting discounts and commissions it expects to receive.

**Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited.**

On April 23, 2002, at the recommendation of our audit committee, we dismissed Arthur Andersen LLP as our independent public accountants and engaged Deloitte & Touche LLP to serve as our independent public accountants for fiscal year 2002. Our audited consolidated financial statements for the period from February 20 (inception) to December 31, 2001 and the audited consolidated financial statements of CB Richard Ellis Services for the period from January 1, 2001 through July 20, 2001, which are included in this prospectus, have been audited by Arthur Andersen, our former independent public accountants, as set forth in their report, but Arthur Andersen has not consented to our use of their report in this prospectus.

Arthur Andersen completed its audit of our consolidated financial statements for the year ended December 31, 2001 and issued its report relating to these consolidated financial statements on February 26, 2002. Subsequently, Arthur Andersen was convicted of obstruction of justice for the activities relating to its previous work for another of its audit clients and has ceased to audit publicly-held companies. We are unable to predict the impact of this conviction or whether other adverse actions may be taken by governmental or private entities against Arthur Andersen. If Arthur Andersen has no assets available for creditors, you may not be able to recover against Arthur Andersen for any claims you may have under securities or other laws as a result of Arthur Andersen's previous role as our independent public accountants and as author of the audit report for some of the audited financial statements included in this prospectus.

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**FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. The words anticipate, believe, could, should, propose, continue, estimate, expect, intend, may, plan, predict, project, will and similar terms in this prospectus to identify forward-looking statements. The forward-looking statements in this prospectus include, but are not limited to, statements under the captions Prospectus Summary, Risk Factors, Unaudited Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business regarding our future financial condition, prospects, developments and business strategies. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements are made based on our management's expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These uncertainties and factors could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements.

The following factors are among those that may cause actual results to differ materially from the forward-looking statements:

changes in general economic and business conditions;

the failure of properties managed by us to perform as anticipated;

competition;

changes in social, political and economic conditions in the foreign countries in which we operate;

foreign currency fluctuations;

future acquisitions;

integration issues relating to acquired businesses;

an economic downturn in the California and New York real estate markets;

significant variability in our results of operations among quarters;

our substantial leverage and debt service obligations;

our ability to incur additional indebtedness;

our ability to generate a sufficient amount of cash to service our existing and future indebtedness;

the success of our co-investment and joint venture activities;

our ability to retain our senior management and attract and retain qualified and experienced employees;

our ability to comply with the laws and regulations applicable to real estate brokerage and mortgage transactions;

our exposure to liabilities in connection with real estate brokerage and property management activities;

the significant influence of our largest stockholders; and

the other factors described under the heading titled Risk Factors.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

**Table of Contents****USE OF PROCEEDS**

We will not receive any of the proceeds from the sale of shares of our common stock in the offering. The selling stockholders will receive all of the net proceeds from the offering.

**PRICE RANGE OF COMMON STOCK**

Our Class A common stock has traded on the New York Stock Exchange under the symbol **CBG** since June 10, 2004. The high and low closing prices of our Class A common stock, as reported by the New York Stock Exchange, are set forth below for the periods indicated.

<b>Fiscal Year 2004</b>	<b>Price Range</b>	
	<b>High</b>	<b>Low</b>
Quarter ending June 30, 2004 (commencing June 10, 2004)	\$ 19.10	\$ 18.20
Quarter ending September 30, 2004	\$ 23.64	\$ 18.78
Quarter ending December 31, 2004 (through November 23, 2004)	\$ 26.88	\$ 23.51

The closing sale price of our Class A common stock, as reported by the New York Stock Exchange on November 23, 2004, was \$25.86. As of October 31, 2004, there were 92 holders of record of our common stock.

**DIVIDEND POLICY**

We have not declared or paid any cash dividends on any class of our common stock since our inception on February 20, 2001, and we do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance future growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors the board of directors deems relevant. In addition, our ability to declare and pay cash dividends after the offering will be restricted by the amended and restated credit agreement governing our senior secured credit facilities and the indentures relating to our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011. As a result, you will need to sell your shares of common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2004.

	<b>As of</b> <b>September 30, 2004</b>
	<b>(In thousands)</b>
Cash and cash equivalents	\$ 147,925
<b>Long-term debt, including current portion:</b>	
Revolving credit facility (1)	\$
Senior secured term loan (2)	280,000
9 <sup>3</sup> / <sub>4</sub> % senior notes due 2010	130,000
11 <sup>1</sup> / <sub>4</sub> % senior subordinated notes due 2011 (3)	204,972
Other long-term debt	2,098
<b>Total long-term debt, including current portion</b>	<b>617,070</b>
<b>Stockholders' equity:</b>	
Class A common stock, \$0.01 par value per share; 325,000,000 shares authorized, 70,195,909 shares issued and outstanding; preferred stock, 25,000,000 shares authorized, no shares issued or outstanding (4)	702
Additional paid-in capital	509,288
Notes receivable from sale of stock	(5,058)
Accumulated deficit	(259)
Accumulated other comprehensive loss	(26,425)
<b>Total stockholders' equity</b>	<b>478,248</b>
<b>Total capitalization</b>	<b>\$ 1,095,318</b>

- (1) As of September 30, 2004, no revolving credit facility borrowings were outstanding but an aggregate of \$24.3 million of letters of credit were outstanding that reduce the amount we may borrow under our revolving credit facility. Borrowings of up to \$150.0 million are available at any one time for general corporate purposes under our revolving credit facility.
- (2) Includes current portion of \$11.8 million due and payable on or prior to September 30, 2005. Our amended and restated credit agreement permits us to borrow up to \$25.0 million of additional term loans under our term loan facility, subject to the satisfaction of customary conditions.
- (3) The amount shown is net of unamortized discount of \$2.4 million associated with the issuance of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011.
- (4) The number of shares of Class A common stock excludes as of September 30, 2004:

5,463,525 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,492,219 shares were then exercisable;

1,265,643 shares subject to options issued under our 2004 stock incentive plan at a weighted average exercise price of \$22.33 per share, of which options to purchase 1,715 shares were then exercisable;

2,911,915 shares underlying outstanding stock fund units under our deferred compensation plan, which are issuable in connection with future distributions under the plan pursuant to elections made by plan participants and of which 1,752,931 were then vested; and

5,631,263 additional shares available for future grants under our 2004 stock incentive plan.

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following unaudited pro forma financial information is based on the historical financial statements of CB Richard Ellis Group and Insignia included elsewhere in this prospectus. The unaudited pro forma statement of operations for the year ended December 31, 2003 gives effect to the following transactions as if they had occurred on January 1, 2003:

**Disposition of Real Estate Investment Assets by Insignia**

the disposition by Insignia Financial Group, Inc. to Island Fund I LLC, immediately prior to the completion of the merger described below on July 23, 2003 and for aggregate cash consideration of \$36.9 million, of Insignia's real estate investment assets, which consisted of Insignia subsidiaries and joint ventures that held (1) minority investments in office, retail, industrial, apartment and hotel properties, (2) minority investments in office development projects and a related undeveloped parcel of land, (3) wholly owned or consolidated investments in Norman, Oklahoma, New York City and the U.S. Virgin Islands and (4) investments in private equity funds that invest in mortgage-backed debt securities and other real estate-related assets; and

**Insignia Acquisition and Related Transactions**

the acquisition of Insignia by our wholly owned subsidiary, CB Richard Ellis Services, Inc., which occurred pursuant to the merger of Apple Acquisition Corp., a wholly owned subsidiary of CB Richard Ellis Services, with and into Insignia on July 23, 2003;

the issuance on May 22, 2003 by CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, of \$200.0 million aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010, which notes were assumed by CB Richard Ellis Services on July 23, 2003 in connection with the merger of CBRE Escrow with and into CB Richard Ellis Services on the same day;

the term loan borrowing by CB Richard Ellis Services of \$75.0 million on July 23, 2003 pursuant to our amended and restated credit agreement dated May 22, 2003; and

fees and expenses related to each of the transactions and financings described in the Insignia Acquisition and Related Transactions bullet points above.

The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations or financial position actually would have been had the disposition of real estate investment assets by Insignia and the Insignia acquisition and related transactions in fact occurred on the date specified, nor does the information purport to project our results of operations for any future period or at any future date.

The unaudited pro forma financial information does not give effect to the refinancing of all outstanding borrowings under our previous amended and restated credit agreement on October 14, 2003 or any financings or debt repayments or redemptions that we completed during 2004, including:

the refinancing of all outstanding borrowings under our amended and restated credit agreement on June 15, 2004;



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the open market purchases by us of \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in May and June 2004, and the payment of \$3.1 million in connection with such purchases; and

the issuance and sale by us of 7,726,764 shares of Class A common stock in our initial public offering and the application of the net proceeds we received to (1) the prepayment of \$15.0 million in principal amount of the senior secured term loan under our amended and restated credit agreement in June 2004, (2) the redemption of the remaining \$38.3 million outstanding principal amount of our 16% senior notes due 2011, including payment of a \$3.7 million premium in connection with such redemption, in July 2004, and (3) the redemption of \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010, including payment of a \$6.8 million premium in connection with such redemption, in July 2004.

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The unaudited pro forma financial information should be read in conjunction with the other information contained in this prospectus under the headings titled Prospectus Summary Summary Historical and Pro Forma Financial Data, Capitalization, Selected Historical Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and the respective financial statements of CB Richard Ellis Group and Insignia and the related notes included elsewhere in this prospectus.

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

For the Year Ended December 31, 2003

(In thousands, except share data)

	Historical		Pro Forma Adjustments		Pro Forma As Adjusted
	CB Richard Ellis Group for the Year Ended December 31, 2003	Insignia from January 1, 2003 to July 23, 2003	Disposition of Real Estate Investment Assets by Insignia (a)	Insignia Acquisition and Related Transactions	
Revenue	\$ 1,630,074	\$ 325,600	\$ (6,847)	\$	\$ 1,948,827
Costs and expenses:					
Cost of services	796,408				796,408
Operating, administrative and other	678,397				678,397
Cost and expenses Insignia		320,319	(8,039)	3,669 (b)	315,949
Depreciation and amortization	92,622	10,148	(792)	(2,134)(c) 3,541 (d)	103,385
Merger-related charges	36,817	21,627	(12,832)	(8,795)(e)	36,817
	<u>1,604,244</u>	<u>352,094</u>	<u>(21,663)</u>	<u>(3,719)</u>	<u>1,930,956</u>
Operating income (loss)	25,830	(26,494)	14,816	3,719	17,871
Equity income (loss) from unconsolidated subsidiaries	14,365	(4,439)	4,439		14,365
Interest income	3,560	1,924		(399)(f)	5,085
Interest expense	71,256	6,045	(841)	7,036 (g)	83,496
Loss on extinguishment of debt	13,479			(6,840)(h)	6,639
(Loss) income from continuing operations before (benefit) provision for income taxes	(40,980)	(35,054)	20,096	3,124	(52,814)
(Benefit) provision for income taxes	(6,276)	(12,104)	8,239	1,250(i)	(8,891)
(Loss) income from continuing operations	<u>\$ (34,704)</u>	<u>\$ (22,950)</u>	<u>\$ 11,857</u>	<u>\$ 1,874</u>	<u>\$ (43,923)</u>
Basic and diluted loss per share from continuing operations	<u>\$ (0.68)</u>				<u>\$ (0.70)</u>
Weighted average shares outstanding for basic and diluted loss per share	<u>50,918,572</u>				<u>62,478,565 (j)</u>

The accompanying notes are an integral part of these financial statements.

**Table of Contents****Notes to Unaudited Pro Forma Statement of Operations****For the Year Ended December 31, 2003**

- (a) Reflects the elimination of the historical results of the real estate investment assets that were sold by Insignia to Island Fund immediately prior to the closing of the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, these dispositions were assumed to have occurred prior to January 1, 2003.
- (b) This adjustment mainly relates to the \$6.6 million estimated fair value of the broker draw asset acquired in the Insignia acquisition. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimated that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia acquisition and, accordingly, we are amortizing it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. Accordingly, the adjustment for pro forma broker draw expense represents twelve months of amortization expense of the broker draw asset acquired. Additionally, the adjustment includes incremental pro forma deferred rent expense resulting from the recalculation of deferred rent expense from the Insignia acquisition, assumed to have closed on January 1, 2003 for purposes of the unaudited pro forma combined statement of operations.
- (c) Represents a reduction to depreciation expense as a result of fair value adjustments to property and equipment.
- (d) Represents an adjustment to amortization expense resulting from the recalculation of amortization expense relating to intangible assets acquired in the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. The largest intangible asset acquired in the Insignia acquisition relates to net revenue backlog. The net revenue backlog consists of net commissions receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia acquisition, for which Insignia recognized no revenue. The net revenue backlog is amortized as cash is received or upon final closing of these pending transactions, a large portion of which is expected to occur within twelve months after the date of the Insignia acquisition. The pro forma amortization adjustment can be summarized as follows (in thousands):

Insignia historical intangible amortization January 1 to July 23, 2003 \$ (1,447)

Adjustment to CB Richard Ellis Group amortization of intangibles acquired

in the Insignia acquisition:

	<u>Amortization Period</u>	<u>Cost</u>	<u>Pro forma 2003 Amortization (Assumes 1/1/03 Acquisition Date)</u>	<u>Historical CB Richard Ellis Group Amortization 7/23-12/31/03</u>	<u>Pro forma Amortization Adjustment Required</u>
Backlog	Various	\$ 72,149	\$ 62,431	\$ 59,108	\$ 3,323
Management contracts	Various	4,611	1,115	490	625
Other	Various	5,808	1,861	821	1,040

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Total	82,568	65,407	60,419	4,988	<u>4,988</u>
Pro forma adjustment to amortization expense					<u>\$ 3,541</u>

- (e) Per Rule 11-02 of Regulation S-X, pro forma combined statements of operations are required to disclose income (loss) from continuing operations before nonrecurring charges or credits directly attributable to the transaction. Accordingly, this adjustment removes such charges from the pro forma statement of operations.

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Insignia's historical merger costs primarily include the loss on the sale of the real estate investment assets to Island Fund prior to the closing of the Insignia acquisition and legal fees incurred related to the Insignia acquisition.

- (f) Represents the reversal of historical interest income earned by us on the net proceeds from the \$200.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes held in escrow from May 22, 2003 through July 23, 2003, the date of the closing of the Insignia acquisition. The net proceeds held in escrow were released to us upon consummation of the Insignia acquisition.
- (g) The increase in pro forma interest expense as a result of the Insignia acquisition is summarized as follows:

	<u>(In thousands)</u>
Interest on \$200.0 million in aggregate principal amount senior notes at 9 <sup>3</sup> / <sub>4</sub> % per annum	\$ 19,500
Incremental interest on \$75.0 million in additional tranche B term loan borrowings at LIBOR plus 4.25% (1)	2,355
Additional 0.50% interest rate margin on existing senior secured term loan facilities	649
Incremental amortization of deferred financing costs over the term of each respective debt instrument	1,688
Incremental commitment and administration fees	196
	<hr/>
Subtotal	24,388
Less: historical interest expense of CB Richard Ellis Group for \$200.0 million in aggregate principal amount of 9 <sup>3</sup> / <sub>4</sub> % senior notes	(11,918)
Less: historical interest expense of Insignia	(1,978)
Less: historical amortization of deferred financing costs of CB Richard Ellis Group (primarily the credit facility in effect prior to Insignia acquisition)	(1,110)
Less: historical amortization of deferred financing costs of Insignia	(2,346)
	<hr/>
Subtotal	(17,352)
	<hr/>
Net increase in interest expense	\$ 7,036
	<hr/>

(1) For purposes of the calculations above, LIBOR is based on the average three-month LIBOR for fiscal year 2003.

- (h) Represents the reversal of the write-off of unamortized deferred financing costs associated with our prior credit agreement, which was replaced in connection with the Insignia acquisition.
- (i) Represents the tax effect of the pro forma adjustments included in notes (b) through (h) above at the respective statutory rates.
- (j) The pro forma weighted average shares number gives effect to the 2,363,598 shares of Class A common stock of CB Richard Ellis Group and the 18,421,621 shares of Class B common stock of CB Richard Ellis Group issued in connection with the Insignia acquisition, as though such shares were issued on January 1, 2003.

**Table of Contents****SELECTED HISTORICAL FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial information for each of the five years in the period ended December 31, 2003 and for the nine months ended September 30, 2004 and 2003. On July 20, 2001, we acquired CB Richard Ellis Services, Inc. Except as otherwise indicated below, the selected historical financial data for the dates and periods ended prior to July 20, 2001 are derived from the consolidated financial statements of CB Richard Ellis Services, our predecessor company. The statement of operations data, statement of cash flow data and other data for the nine months ended September 30, 2004 and 2003 and the balance sheet data as of September 30, 2004 were derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The statement of operations data, statement of cash flow data and other data for the year ended December 31, 2003 and 2002, for the period from February 20 (inception) to December 31, 2001 and for the period from January 1 to July 20, 2001 and the balance sheet data as of December 31, 2003 and 2002 were derived from our or our predecessor's audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data, statement of cash flow data and other data for the year ended December 31, 2000 and 1999 and the balance sheet data as of December 31, 2001, 2000 and 1999 were derived from our predecessor's audited consolidated financial statements that are not included in this prospectus.

The selected financial data presented below are not necessarily indicative of results of future operations and should be read in conjunction with our consolidated financial statements and the information included under the headings Management's Discussion and Analysis of Financial Condition and Results of Operations and Unaudited Pro Forma Financial Information included elsewhere in this prospectus.

	CB Richard Ellis Group					Predecessor Company		
	Period		From		Period			
	Nine Months Ended	Year Ended	February 20	From	Year Ended			
	September 30,	December 31,	(inception)	January 1 to	December 31,			
2004	2003	2003(1)	2002	2001(2)	2001	2000	1999	
(Dollars in thousands, except share data)								
<b>Statement of Operations Data:</b>								
Revenue	\$ 1,566,907	\$ 1,008,817	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934	\$ 1,323,604	\$ 1,213,039
Operating income (loss)	60,772	6,694	25,830	96,736	61,178	(17,048)	100,780	71,387
Interest expense, net	49,835	49,115	67,696	57,229	27,290	18,736	39,146	37,438
Loss on extinguishment of debt	21,075	6,840	13,479					
Net (loss) income	(1,708)	(24,620)	(34,704)	18,727	17,426	(34,020)	33,388	23,282
EPS (3)(4):								
Basic	(0.03)	(0.52)	(0.68)	0.45	0.80	(1.60)	1.60	1.11
Diluted	(0.03)	(0.52)	(0.68)	0.44	0.79	(1.60)	1.60	1.10
Weighted average shares (4)(5):								
Basic	66,006,231	46,995,364	50,918,572	41,640,576	21,741,351	21,306,584	20,931,111	20,998,097
Diluted	66,006,231	46,995,364	50,918,572	42,185,989	21,920,915	21,306,584	21,097,240	21,072,436
<b>Statement of Cash Flow Data:</b>								
Net cash provided by (used in) operating activities	\$ 38,605	\$ (70,714)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)	\$ 80,859	\$ 70,340
Net cash provided by (used in) investing activities	8,821	(252,684)	(284,795)	(24,130)	(261,393)	(12,139)	(32,469)	(23,096)



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Net cash (used in) provided by financing activities	(61,721)	328,498	303,664	(17,838)	213,831	126,230	(53,523)	(37,721)
<b>Other Data:</b>								
EBITDA (6)	\$ 110,893	\$ 69,447	\$ 132,817	\$ 130,676	\$ 74,930	\$ 11,482	\$ 150,484	\$ 117,369

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	CB Richard Ellis Group				Predecessor Company	
	As of September 30,	As of December 31,			As of December 31,	
	2004	2003	2002	2001	2000	1999
	(In thousands)					
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 147,925	\$ 163,881	\$ 79,701	\$ 57,450	\$ 20,854	\$ 27,844
Total assets	2,007,347	2,213,481	1,324,876	1,354,512	963,105	929,483
Long-term debt, including current portion	617,070	802,705	509,715	517,423	289,447	348,135
Total liabilities	1,522,432	1,873,896	1,067,920	1,097,693	724,018	715,874
Total stockholders' equity	478,248	332,929	251,341	252,523	235,339	209,737

Note: We and our predecessor have not declared any cash dividends for the periods shown.

- (1) The actual results for the year ended December 31, 2003 include the activities of Insignia from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (2) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (3) EPS represents (loss) earnings per share. See (loss) earnings per share information in note 14 to our unaudited consolidated financial statements and note 16 to our audited consolidated financial statements, both included elsewhere in this prospectus.
- (4) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock effected on June 7, 2004 because our predecessor was a different legal entity.
- (5) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (6) EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, operating income (loss) and net (loss) income, each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service

payments. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

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EBITDA is calculated as follows:

	CB Richard Ellis Group				Predecessor Company			
	Nine Months Ended		Year Ended		Period From	Period From	Year Ended	
	September 30,		December 31,		February 20 (inception) to December 31,	January 1 to July 20,	December 31,	
	2004	2003	2003	2002	2001	2001	2000	1999
	(In thousands)							
Net (loss) income	\$ (1,708)	\$ (24,620)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)	\$ 33,388	\$ 23,282
Add:								
Depreciation and amortization	40,001	53,571	92,622	24,614	12,198	25,656	43,199	40,470
Interest expense	52,138	51,739	71,256	60,501	29,717	20,303	41,700	39,368
Loss on extinguishment of debt	21,075	6,840	13,479					
(Benefit) provision for income taxes	1,690	(15,459)	(6,276)	30,106	18,016	1,110	34,751	16,179
Less:								
Interest income	2,303	2,624	3,560	3,272	2,427	1,567	2,554	1,930
<b>EBITDA</b>	<b>\$ 110,893</b>	<b>\$ 69,447</b>	<b>\$ 132,817</b>	<b>\$ 130,676</b>	<b>\$ 74,930</b>	<b>\$ 11,482</b>	<b>\$ 150,484</b>	<b>\$ 117,369</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the risks described under the heading "Risk Factors" and elsewhere in this prospectus. You should read the following discussion in conjunction with the information included under the headings titled "Unaudited Pro Forma Financial Information" and "Selected Historical Financial Data" and the financial statements and related notes included elsewhere in this prospectus.*

**Overview**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003 we operated in 220 offices worldwide with over 13,500 employees, excluding affiliate and partner offices, providing commercial real estate services under the CB Richard Ellis brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

When you read our financial statements and the information included in this section, you should consider that we have experienced, and continue to experience, several material trends and uncertainties that have affected our financial condition and results of operations and make it challenging to predict our future performance based on our historical results. We believe that the following material trends and uncertainties are most crucial to an understanding of the variability in our historical earnings and cash flows and the potential for such variances in the future:

***Macroeconomic Conditions***

Economic trends and government policies directly affect our operations as well as global and regional commercial real estate markets generally. These include overall economic activity and employment growth, interest rate levels, the availability of credit to finance transactions and the impact of tax and regulatory policies. Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can reduce volumes for many of our business lines. Weak economic conditions could result in a general decline in rents, which, in turn, would reduce revenue from property management fees and brokerage commissions derived from property sales and leases. In addition, these conditions could lead to a decline in sales prices as well as a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage banking business. If our brokerage and mortgage banking businesses are negatively impacted, it is likely that our other lines of business would also suffer due to the relationship among our various business lines.

During 2002 and 2001, we were adversely affected by the slowdown in the United States economy, which negatively impacted the commercial real estate market generally. This caused a decline in our leasing activities within the United States. Moreover, in part because of the terrorist attacks on September 11, 2001 and the run-up to the conflict with Iraq, the economic climate in the United States became very uncertain, which had an adverse effect on commercial real estate market conditions and, in turn, our operating results for 2002 and 2001. During 2003 and the first three-quarters of 2004, economic conditions in the United States improved, which positively impacted the commercial real estate market

generally. This caused an improvement in our Americas segment's revenue, particularly in sales and leasing activities. We expect this trend to continue in the near term.

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Our management team primarily addresses adverse changes in economic conditions through our compensation structure. Compensation is our largest expense, and the sales and leasing professionals in our largest line of business, advisory services, generally are paid on a commission and bonus basis that correlates with our revenue performance. As a result, the negative effect on our operating margins during difficult market conditions is partially mitigated. In addition, in circumstances when economic conditions are particularly severe, our management also has sought to improve operational performance through cost reduction programs. For example, as economic conditions worsened in 2001, our management team made targeted reductions in our workforce, reduced senior management bonuses, streamlined general and administrative operations and cut capital expenditures and other discretionary operating expenses. After our acquisition of CB Richard Ellis Services in 2001, our management also instituted a best practices program branded People, Platform & Performance in order to implement and encourage new business practices that would result in lower operating expenses and enhance revenue and margin growth. We believe this program significantly contributed to the \$18.7 million reduction in our operating expenses during 2002 as compared to 2001. Notwithstanding these approaches, adverse global and regional economic changes remain one of the most significant risks to our future financial condition and results of operations.

### ***Effects of Prior Acquisitions***

Our management historically has made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. For example, we enhanced our mortgage banking services through our 1996 acquisition of L.J. Melody & Company and we significantly increased the scale of our investment management business through our 1995 acquisition of Westmark Realty Advisors and our 1997 acquisition of Koll Real Estate Services. An example of a strategic acquisition that increased our geographic coverage was our 1998 acquisition of Hillier Parker May & Rowden in the United Kingdom. Our largest acquisition to date was our July 23, 2003 acquisition of Insignia Financial Group, which not only significantly increased the scale of our real estate services and outsourcing services business lines in the Americas segment but also significantly increased our presence in the New York, London and Paris metropolitan areas.

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures and charges and the costs of integrating the acquired business and its financial and accounting systems into our own. For example, through September 30, 2004, we have incurred \$200.9 million of transaction-related expenses in connection with our acquisition of Insignia in 2003 and \$87.6 million of transaction-related expenses in connection with our acquisition of CB Richard Ellis Services in 2001. Transaction-related expenses include severance costs, lease termination costs, transaction costs, deferred financing costs and merger-related costs, among others. We do not expect to incur any additional transaction-related expenditures after September 30, 2004 with respect to the Insignia Acquisition. In addition, through September 30, 2004, we have incurred approximately \$25.4 million of expenses in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own. We expect to incur additional integration expenses in connection with the Insignia integration of approximately \$2.5 million during the fourth quarter of 2004, approximately \$6.5 million during 2005 and approximately \$4.0 million during 2006.

### ***International Operations***

We have made significant acquisitions of non-U.S. companies, and we may acquire additional foreign companies in the future. As we increase our foreign operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our management team generally

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seeks to mitigate our exposure by balancing assets and liabilities that are denominated in the same currency and by maintaining cash positions outside the United States only at levels necessary for operating purposes. In addition, from time to time we enter into foreign currency forward exchange contracts to mitigate our exposure to exchange rate changes related to particular transactions. Prior to 2004, our management historically had not entered into agreements to hedge the risks associated with the translation of foreign currencies into U.S. dollars. On April 6, 2004, we entered into an option agreement to purchase an aggregate notional amount of 8.7 million British pounds sterling for a cost of \$0.6 million, which would have expired on December 29, 2004. On July 2, 2004, we entered into an option agreement to purchase an aggregate notional amount of 18.8 million euros for a cost of \$0.07 million, which also would have expired on December 29, 2004. During October 2004, we sold both of these option agreements and entered into two new option agreements to purchase an aggregate notional amount of 10.2 million British pounds sterling for a cost of \$0.3 million and 20.0 million euros for a cost of \$0.4 million, both of which expire on December 29, 2004. The net impact on our earnings resulting from gains and/or losses on these option agreements has not been, and is not expected to be, material. Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, our management cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

Our international operations also are subject to, among other things, political instability and changing regulatory environments, which may adversely affect our future financial condition and results of operations. Our management routinely monitors these risks and costs and evaluates the appropriate amount of resources to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

***Leverage***

We are highly leveraged and have significant debt service obligations. Although our management believes that the incurrence of this long-term indebtedness has been important in funding the growth of our business, including facilitating our acquisition of Insignia Financial Group in 2003, the cash flow necessary to service this debt is not available for other general corporate purposes, which may limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry.

Our management seeks to mitigate this exposure both through the refinancing of debt when available on attractive terms and through selective repayment and retirement of indebtedness. For example, we refinanced our senior secured credit facilities in October 2003 and June 2004 to obtain more attractive interest rates and other terms, redeemed \$30.0 million in aggregate principal amount of our 16% senior notes in late 2003 and repurchased \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May and June 2004.

In addition, on June 15, 2004 we received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us, in connection with the sale of 7,726,764 shares of our Class A common stock pursuant to the completion of our initial public offering. During June 2004, we used a portion of the net proceeds received from our initial public offering to prepay \$15.0 million in principal amount of the term loan under our amended and restated credit agreement, and during July 2004 we used the remaining net proceeds we received from our initial public offering to redeem all \$38.3 million in aggregate principal amount of our remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes. In addition, we amended our amended and restated credit agreement, effective November 16, 2004, to reduce the interest rates applicable to the term loan facility and to modify some of the restrictive covenants in the agreement. Our management expects to continue to look for opportunities to reduce, and improve the terms of, our debt in the future.

Notwithstanding the actions described above, however, our level of indebtedness and the operating and financial restrictions in our debt agreements both place constraints on the operation of our business.





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### **Basis of Presentation**

#### ***Recent Significant Acquisitions and Dispositions***

On July 20, 2001, we acquired CB Richard Ellis Services, Inc. pursuant to an amended and restated agreement and plan of merger, dated as of May 31, 2001, among CB Richard Ellis Group (formerly known as CBRE Holding, Inc.), CB Richard Ellis Services and Blum CB Corp., a wholly owned subsidiary of CB Richard Ellis Group. Blum CB was merged with and into CB Richard Ellis Services, with CB Richard Ellis Services being the surviving corporation. At the effective time of such merger, CB Richard Ellis Services became a wholly owned subsidiary of CB Richard Ellis Group.

Our results of operations, including our segment operations and cash flows, for the year ended December 31, 2001 have been derived by combining the results of operations and cash flows of CB Richard Ellis Group for the period from February 20 (inception) to December 31, 2001 with the results of operations and cash flows of CB Richard Ellis Services, our predecessor, from January 1, 2001 to July 20, 2001, the date of the merger. The results of operations and cash flows of our predecessor prior to the merger incorporated in the following discussion are the historical results and cash flows of our predecessor. These results of our predecessor do not reflect any purchase accounting adjustments, which are included in our results subsequent to the merger. Due to the effects of purchase accounting applied as a result of the merger and the additional interest expense associated with the debt incurred to finance the merger, our results of operations may not be comparable in all respects to the results of operations for our predecessor prior to the merger. However, our management believes a discussion of our 2001 operations is more meaningful by combining our results with the results of our predecessor.

On July 23, 2003, pursuant to an amended and restated agreement and plan of merger, dated as of May 28, 2003, by and among CB Richard Ellis Services, CB Richard Ellis Group, Apple Acquisition Corp., a Delaware corporation and wholly owned subsidiary of CB Richard Ellis Services, and Insignia Financial Group, Inc., Apple Acquisition was merged with and into Insignia Financial Group. Insignia Financial Group was the surviving corporation in the Insignia acquisition and at the effective time of the Insignia acquisition became a wholly owned subsidiary of CB Richard Ellis Services.

#### ***Segment Reporting***

We report our operations through three geographically organized segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, and (3) Asia Pacific. The Americas consists of operations located in the United States, Canada, Mexico and South America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand.

**Table of Contents****Results of Operations**

The following tables set forth items derived from the consolidated statements of operations for the nine months ended September 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001, presented in dollars and as a percentage of revenue:

	<b>Nine Months Ended September 30,</b>			
	<b>2004</b>		<b>2003</b>	
	<b>(Dollars in thousands)</b>			
Revenue	\$ 1,566,907	100.0 %	\$ 1,008,817	100.0 %
Costs and expenses:				
Cost of services	797,544	50.9	484,485	48.0
Operating, administrative and other	643,016	41.0	444,272	44.0
Depreciation and amortization	40,001	2.6	53,571	5.3
Merger-related charges	25,574	1.6	19,795	2.0
Operating income	60,772	3.9	6,694	0.7
Equity income from unconsolidated subsidiaries	10,120	0.6	9,182	0.9
Interest income	2,303	0.2	2,624	0.2
Interest expense	52,138	3.4	51,739	5.1
Loss on extinguishment of debt	21,075	1.3	6,840	0.7
Loss before (benefit) provision for income taxes	(18)	0.0	(40,079)	(4.0)
Provision (benefit) for income taxes	1,690	0.1	(15,459)	(1.6)
Net loss	\$ (1,708)	(0.1)%	\$ (24,620)	(2.4)%
EBITDA	\$ 110,893	7.1 %	\$ 69,447	6.9 %

	<b>Year Ended December 31,</b>					
	<b>2003</b>		<b>2002</b>		<b>2001</b>	
	<b>(Dollars in thousands)</b>					
Revenue	\$ 1,630,074	100.0 %	\$ 1,170,277	100.0%	\$ 1,170,762	100.0 %
Costs and expenses:						
Cost of services	796,408	48.8	547,093	46.7	542,804	46.4
Operating, administrative and other	678,397	41.6	501,798	42.9	517,405	44.2
Depreciation and amortization	92,622	5.7	24,614	2.1	37,854	3.2
Merger-related and other nonrecurring charges	36,817	2.3	36		28,569	2.5
Operating income	25,830	1.6	96,736	8.3	44,130	3.8
Equity income from unconsolidated subsidiaries	14,365	0.9	9,326	0.8	4,428	0.4
Interest income	3,560	0.2	3,272	0.3	3,994	0.4
Interest expense	71,256	4.4	60,501	5.2	50,020	4.3
Loss on extinguishment of debt	13,479	0.8				

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(Loss) income before (benefit) provision for income taxes	(40,980)	(2.5)	48,833	4.2	2,532	0.2
(Benefit) provision for income taxes	(6,276)	(0.4)	30,106	2.6	19,126	1.6
Net (loss) income	\$ (34,704)	(2.1)%	\$ 18,727	1.6%	\$ (16,594)	(1.4)%
EBITDA	\$ 132,817	8.1 %	\$ 130,676	11.2%	\$ 86,412	7.4 %

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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In addition, our management believes that EBITDA is useful in evaluating our performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, operating income (loss) and net income (loss), each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

EBITDA is calculated as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>	
Net loss	\$ (1,708)	\$ (24,620)
Add:		
Depreciation and amortization	40,001	53,571
Interest expense	52,138	51,739
Loss on extinguishment of debt	21,075	6,840
Provision (benefit) for income taxes	1,690	(15,459)
Less:		
Interest income	2,303	2,624
<b>EBITDA</b>	<b>\$ 110,893</b>	<b>\$ 69,447</b>

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>		
Net (loss) income	\$ (34,704)	\$ 18,727	\$ (16,594)
Add:			
Depreciation and amortization	92,622	24,614	37,854
Interest expense	71,256	60,501	50,020
Loss on extinguishment of debt	13,479		
(Benefit) provision for income taxes	(6,276)	30,106	19,126
Less:			
Interest income	3,560	3,272	3,994

EBITDA	\$ 132,817	\$ 130,676	\$ 86,412
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*Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003*

We reported a consolidated net loss of \$1.7 million for the nine months ended September 30, 2004 on revenue of \$1.6 billion as compared to a consolidated net loss of \$24.6 million on revenue of \$1.0 billion for the nine months ended September 30, 2003.

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Our revenue on a consolidated basis increased by \$558.1 million, or 55.3%, as compared to the nine months ended September 30, 2003. The increase was primarily driven by the combination of the Insignia acquisition and organic market share growth sustained by the improvement of general economic conditions in the United States. This was evidenced by higher revenues in our Americas and EMEA business segments, particularly relative to sales and lease transaction revenue as well as management and consulting fees. In addition, in our EMEA business segment we experienced an increase in appraisal fees. Also, with the anticipation of rising interest rates in the United States during the first half of the year, we experienced an increase in loan origination fees in our Americas business segment. Foreign currency translation had a \$46.8 million positive impact on total revenue during the nine months ended September 30, 2004.

Our cost of services on a consolidated basis increased by \$313.1 million, or 64.6%, as compared to the nine months ended September 30, 2003. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the overall increase in revenue. The Insignia acquisition has contributed to higher payroll-related costs, including bonus accruals, insurance and benefits, producer retention and broker draw amortization. The producer retention expense, which represents amounts paid to the top real estate advisory services professionals that we retained at the time of the acquisition, is being amortized through cost of services over the lives of the related employment agreements. As part of our refinement of the purchase price allocation for the Insignia acquisition, during the three months ended March 31, 2004, we assigned a \$6.6 million fair value to a broker draw asset acquired in the Insignia acquisition. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimated that we would derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia acquisition and, accordingly, we are amortizing it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. During the nine months ended September 30, 2004, we have recorded \$3.9 million for the amortization of this broker draw asset, which includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003. The producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$8.2 million for the nine months ended September 30, 2004. Foreign currency translation had a \$20.8 million negative impact on cost of services during the nine months ended September 30, 2004. Cost of services as a percentage of revenue increased from 48.0% for the nine months ended September 30, 2003 to 50.9% for the nine months ended September 30, 2004, primarily driven by producers reaching higher commission tranches as a result of higher revenue and due to the producer retention and broker draw amortization recorded in 2004 as well as the new mix of compensation structures as a result of compensation plans adopted in the Insignia acquisition.

Our operating, administrative and other expenses on a consolidated basis were \$643.0 million, an increase of \$198.7 million, or 44.7%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The increase was primarily driven by higher costs as a result of the Insignia acquisition, including \$3.6 million of integration costs, as well as increased worldwide payroll-related expenses, such as bonuses and insurance and benefits and increased marketing expenses. Higher occupancy expenses, particularly in our EMEA business segment, the write-down of investments of \$3.0 million in our Americas business segment as well as professional fees of \$2.7 million in the current year related to the ongoing Sarbanes-Oxley compliance work also contributed to the variance. During the nine months ended September 30, 2004, we also incurred one-time compensation expense of \$15.0 million related to bonus payments that were triggered by our initial public offering and were payable to several of our non-executive real estate advisory services employees as a result of provisions in their employment agreements. Additionally, during the nine months ended September 30, 2003 total operating expenses were reduced by substantial net foreign transaction gains as the dollar was very weak particularly relative to the Australian and New Zealand dollars, while in the nine months ended September 30, 2004 we experienced only moderate net foreign currency transaction losses. Finally, foreign currency translation had a \$22.5 million negative impact on total operating expenses during the nine months ended September 30, 2004.

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Our depreciation and amortization expense on a consolidated basis decreased by \$13.6 million, or 25.3%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The decrease was largely due to lower amortization expense related to intangibles acquired in the Insignia acquisition, including a reduction in amortization expense of \$20.7 million related to acquired net revenue backlog. As of September 30, 2004, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Insignia acquisition was \$2.8 million and is expected to be fully amortized by the end of 2004. Partially offsetting the aforementioned decrease in amortization expense was a \$5.2 million increase in depreciation expense during 2004 mainly related to depreciation expense associated with fixed assets acquired in the Insignia acquisition.

Our merger-related charges on a consolidated basis were \$25.6 million and \$19.8 million for the nine months ended September 30, 2004 and 2003, respectively. The charges for both years primarily consisted of lease termination costs associated with vacated spaces, consulting costs and severance costs, all of which were attributable to the Insignia acquisition.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased \$0.9 million, or 10.2%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003, primarily due to a one-time incentive fee of \$0.9 million received from an investment fund as well as improved overall performance of our equity investments in the United States and Japan. These increases were partially offset, on a year over year comparison basis, by the impact of a one-time gain on the sale of owned units in an investment fund recognized in the prior year.

Our consolidated interest expense was \$52.1 million for the nine months ended September 30, 2004, which was relatively flat in comparison to the nine months ended September 30, 2003. The slight increase was driven by higher interest expense as a result of the additional debt issued in connection with the Insignia acquisition offset by the interest savings realized as a result of debt repayments during the fourth quarter of 2003 and throughout 2004. As a result of our de-leveraging efforts to date in 2004, we expect to achieve annual cash interest savings in 2005 of approximately \$16.0 million.

Our loss on the extinguishment of debt on a consolidated basis was \$21.1 million and \$6.8 million for the nine months ended September 30, 2004 and 2003, respectively. The loss incurred during the current year was related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the redemptions of \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes and \$38.3 million in aggregate principal amount of our 16.0% senior notes with the net proceeds received from our initial public offering. Additionally, we incurred a loss of \$4.0 million in the second quarter of 2004 related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the \$21.6 million repurchase of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May and June 2004. The loss in the prior year related to the write-off of unamortized deferred financing fees associated with a prior credit facility, which was replaced in connection with the Insignia acquisition.

Our provision for income taxes on a consolidated basis was \$1.7 million for the nine months ended September 30, 2004 as compared to a benefit for income taxes of \$15.5 million for the nine months ended September 30, 2003. The unusual tax rate for the nine months ended September 30, 2004 was primarily related to losses sustained in jurisdictions where no tax benefit can be provided.

### ***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

We reported a consolidated net loss of \$34.7 million for the year ended December 31, 2003 on revenue of \$1.6 billion as compared to consolidated net income of \$18.7 million on revenue of \$1.2 billion for the year ended December 31, 2002.



Our revenue on a consolidated basis increased \$459.8 million, or 39.3%, during the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was driven by higher

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revenue as a result of our capturing a larger market share in our Americas real estate services business line through our acquisition of Insignia, particularly leasing activity in the New York area. Additionally, as a result of the improvement of general economic conditions in the United States, we experienced significantly higher sales transaction revenue as well as increased lease transaction revenue and appraisal fees. Internationally, the Insignia acquisition helped us to expand our reach in Europe as evidenced by increased sales and lease transaction revenue, as well as higher consultation and appraisal fees, particularly in London and Paris. We expect that this increased revenue level will be maintained in the near term. Lastly, foreign currency translation had a \$54.4 million positive impact on total revenue during the year ended December 31, 2003.

Our cost of services on a consolidated basis totaled \$796.4 million, an increase of \$249.3 million, or 45.6%, from the year ended December 31, 2002. This increase was mainly due to higher commission expense, bonus accruals and producer retention expense as a result of the Insignia acquisition as well as increased worldwide sales and lease transaction revenue. Our sales and leasing professionals are paid on a commission and bonus basis, which generally correlates with our revenue performance. Accordingly, as revenue increases, cost of services will also increase. Additionally, we paid bonuses to the top advisory services professionals of Insignia that we retained in the acquisition. The producer retention expense represents the amortization of these bonuses, which are being amortized to cost of services over the lives of the related employment agreements. The producer retention expense is considered an integration cost associated with the Insignia acquisition and amounted to \$2.7 million for the year ended December 31, 2003. Also contributing to the increase in cost of services over the prior year was increased worldwide payroll related costs, including worldwide insurance and pension expense in the United Kingdom, which were mainly driven by increased headcount resulting from the Insignia acquisition. Finally, foreign currency translation had a \$23.9 million negative impact on cost of services during the year ended December 31, 2003.

Our operating, administrative and other expenses on a consolidated basis were \$678.4 million, an increase of \$176.6 million, or 35.2 %, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by higher costs as a result of the Insignia acquisition, including \$10.9 million of integration costs, as well as increased worldwide bonuses and payroll-related expenses, principally in the Americas and Europe. Included in the 2003 bonus amount was an accrual for a one-time performance award of approximately \$6.9 million. We expect to pay higher bonuses in 2004 as we will incur a nonrecurring charge of \$15.0 million for compensation expenses relating to bonus payments triggered by the offering, which are payable to several of our non-executive real estate services employees as a result of provisions in such employees' employment agreements. Also contributing to the variance was a legal settlement in the United States in 2003 as well as higher occupancy expense in the United Kingdom as a result of our relocation to a new facility in 2003. Lastly, foreign currency translation had a \$23.4 million negative impact on total operating expenses during the year ended December 31, 2003. These increases were partially offset by net foreign currency translation gains resulting from the weaker U.S. dollar. Over 2003 and 2002, the U.S. dollar has continued to weaken, which has resulted in our recognizing foreign currency translation gains. Due to the volatility of currency exchange rates, there is no way for us to predict if this trend will continue in the future.

Our depreciation and amortization expense on a consolidated basis increased by \$68.0 million, or 276.3%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 mainly due to \$59.1 million of amortization of the net revenue backlog acquired as part of the Insignia acquisition. As of December 31, 2003, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Insignia acquisition was \$13.4 million, which is expected to be fully amortized by the end of 2004 (see note 8 of our audited consolidated financial statement included elsewhere in this prospectus). The increase over the prior year was also due to a one-time reduction of amortization expense recorded in 2002 related to the adjustment of certain intangible assets to their estimated fair values as of their acquisition date in connection with our acquisition of CB Richard Ellis Services in 2001.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased \$5.0 million, or 54.0%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002, primarily due

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to a one-time gain on sale of owned units in an investment fund. In addition, the trend of improved performance in our other domestic joint ventures continued, but was offset by a decrease in equity income versus the prior year as a result of a one-time disposition fee received in 2002 upon liquidation of one of our U.S. joint ventures in the normal course of business upon completion of the investment strategy set forth in its joint venture agreement.

Our merger-related charges on a consolidated basis were \$36.8 million for the year ended December 31, 2003. These charges primarily consisted of lease termination costs associated with vacated spaces, change of control payments, consulting costs and severance costs, all of which were attributable to the Insignia acquisition.

Our consolidated interest expense was \$71.3 million for the year ended December 31, 2003, an increase of \$10.8 million, or 17.8%, as compared to the year ended December 31, 2002. This increase was primarily driven by the new debt incurred in connection with the Insignia acquisition.

Our loss on extinguishment of debt on a consolidated basis was \$13.5 million for the year ended December 31, 2003. The loss resulted from a \$6.8 million write-off of unamortized deferred financing fees associated with a prior credit facility, which was replaced in connection with the Insignia acquisition, as well as \$6.7 million of write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the \$30.0 million of redemptions of our 16% senior notes in the fourth quarter of 2003.

Our benefit for income tax on a consolidated basis was \$6.3 million for the year ended December 31, 2003 as compared to a provision for income tax of \$30.1 million for the year ended December 31, 2002. The income tax (benefit) provision and effective tax rate generally were not comparable between periods due to the effects of the Insignia acquisition. Additionally, non-deductible expenses contributed to a lower effective tax benefit rate in 2003 as compared to 2002.

### ***Year Ended December 31, 2002 Compared to Year Ended December 31, 2001***

We reported consolidated net income of \$18.7 million for the year ended December 31, 2002 on revenue of \$1.2 billion as compared to a consolidated net loss of \$16.6 million on revenue of \$1.2 billion for the year ended December 31, 2001.

Our revenue on a consolidated basis for the year ended December 31, 2002 was comparable to the year ended December 31, 2001. Overall revenue decreased in our Americas segment primarily caused by declines in lease transaction revenue, which were driven by the continued softness in the leasing industry in the United States as a result of general economic uncertainty, combined with a nonrecurring sale of mortgage fund contracts of \$5.6 million in 2001. In Asia Pacific, revenue declined mainly due to the sale of our wholly-owned operations in Thailand, the Philippines and India. These decreases were mostly offset by higher worldwide sales transaction revenue driven by investment property sales and higher investment management fees in Japan as result of the expansion of this business in that region. Foreign currency translation had a \$10.5 million positive impact on total revenue during the year ended December 31, 2002.

Our cost of services on a consolidated basis totaled \$547.1 million for the year ended December 31, 2002, an increase of \$4.3 million, or 0.8%, from the year ended December 31, 2001. This increase was primarily due to higher compensation of advisory services professionals within our international operations associated with expanded international activities. These increases were partially offset by lower variable commissions, principally in our Americas segment, driven by lower lease transaction revenue. Foreign currency translation had a \$4.2 million negative impact on cost of services during the year ended December 31, 2002.

Our operating, administrative and other expenses on a consolidated basis were \$501.8 million for the year ended December 31, 2002, a decrease of \$15.6 million, or 3.0%, as compared to the year ended December 31, 2001. This decrease was primarily driven by cost reduction measures and operational efficiencies from programs initiated in May 2001, as well as foreign currency transaction and settlement gains resulting from the weaker U.S. dollar. The trend of foreign currency transaction gains resulting from the weakening of the U.S. dollar has

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continued in 2003. These reductions were partially offset by an increase in bonuses and other incentives, primarily within our international operations, due to improved results. Foreign currency translation also had a \$4.1 million negative impact on total operating expenses during the year ended December 31, 2002.

Our depreciation and amortization expense on a consolidated basis decreased by \$13.2 million, or 35.0%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001 was mainly due to the discontinuation of goodwill amortization after our acquisition of CB Richard Ellis Services in 2001 in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142, and lower depreciation expense, principally due to lower capital expenditures for the year ended December 31, 2002. The lower capital expenditures resulted from cost reduction measures initiated in 2001. Our capital expenditures increased in 2003 primarily as a result of our planned relocation to a new facility in the United Kingdom in 2003. The year ended December 31, 2002 also included a one-time reduction of amortization expense of \$2.0 million arising from the adjustment of certain intangible assets to their estimated fair values as of July 20, 2001, the date we acquired CB Richard Ellis Services.

Our equity income from unconsolidated subsidiaries increased by \$4.9 million, or 110.6%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, primarily due to a \$2.2 million nonrecurring disposition fee received upon liquidation of one of our joint ventures in the United States in the normal course of business, upon completion of the investment strategy set forth in its joint venture agreement, as well as the improved performance from several of our other domestic joint ventures. Earnings from these domestic joint ventures continued to increase during 2003 as general economic conditions improved in the United States.

Our merger-related and other nonrecurring charges on a consolidated basis were \$28.6 million for the year ended December 31, 2001. These costs primarily consisted of merger-related charges of \$18.3 million, the write-off of assets, primarily e-business investments, of \$7.2 million as well as severance costs of \$3.1 million related to our cost reduction program initiated in May 2001.

Our consolidated interest expense was \$60.5 million, an increase of \$10.5 million, or 21.0%, over the year ended December 31, 2001. This was primarily attributable to our change in debt structure in connection with our acquisition of CB Richard Ellis Services in 2001.

Our income tax expense on a consolidated basis was \$30.1 million for the year ended December 31, 2002 as compared to \$19.1 million for the year ended December 31, 2001. The income tax provision and effective tax rate were not comparable between periods due to effects of our acquisition of CB Richard Ellis Services in 2001 and the adoption of SFAS No. 142, which resulted in the elimination of the amortization of goodwill. In addition, non-deductible losses associated with our deferred compensation plan contributed to an increased effective tax rate.

## **Segment Operations**

The following tables summarize our revenue, costs and expenses and operating income (loss) by operating segment for the nine months ended September 30, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001. Our Americas results for the nine months ended September 30, 2004 and 2003 include merger-related charges of \$22.0 million and \$15.9 million, respectively, attributable to the Insignia acquisition. Our Americas 2003 results include merger-related charges of \$20.4 million attributable to the acquisition of Insignia. Our Americas 2001 results include a nonrecurring sale of mortgage fund contracts of \$5.6 million, as well as merger-related and other nonrecurring charges of \$26.9 million attributable to our acquisition of CB Richard Ellis Services. Our EMEA results for the nine months ended September 30, 2004 and 2003 include merger-related charges of \$3.5 million and \$3.9 million, respectively, attributable to the Insignia acquisition. Our EMEA 2003 results include merger-related charges of \$16.0 million attributable to the Insignia acquisition. Our Asia Pacific 2001 results include merger-related and other nonrecurring charges of \$1.2 million attributable to the acquisition of CB Richard Ellis Services.



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	Nine Months Ended September 30,			
	2004		2003	
	(Dollars in thousands)			
<b>The Americas</b>				
Revenue	\$ 1,148,577	100.0%	\$ 766,995	100.0%
Costs and expenses:				
Cost of services	614,254	53.5	380,942	49.7
Operating, administrative and other	435,117	37.9	316,352	41.2
Depreciation and amortization	27,007	2.3	37,277	4.8
Merger-related charges	22,037	1.9	15,891	2.1
Operating income	\$ 50,162	4.4%	\$ 16,533	2.2%
EBITDA	\$ 86,770	7.6%	\$ 63,189	8.2%
<b>EMEA</b>				
Revenue	\$ 310,511	100.0%	\$ 167,020	100.0%
Costs and expenses:				
Cost of services	133,001	42.8	70,782	42.4
Operating, administrative and other	162,740	52.4	91,615	54.9
Depreciation and amortization	10,093	3.3	13,856	8.3
Merger-related charges	3,537	1.1	3,904	2.3
Operating income (loss)	\$ 1,140	0.4%	\$ (13,137)	(7.9)%
EBITDA	\$ 10,956	3.5%	\$ 358	0.2%
<b>Asia Pacific</b>				
Revenue	\$ 107,819	100.0%	\$ 74,802	100.0%
Costs and expenses:				
Cost of services	50,289	46.6	32,761	43.8
Operating, administrative and other	45,159	41.9	36,305	48.5
Depreciation and amortization	2,901	2.7	2,438	3.3
Operating income	\$ 9,470	8.8%	\$ 3,298	4.4%
EBITDA	\$ 13,167	12.2%	\$ 5,900	7.9%

	Year Ended December 31,					
	2003		2002		2001	
	(Dollars in thousands)					
<b>The Americas</b>						
Revenue	\$ 1,197,626	100.0%	\$ 896,064	100.0%	\$ 928,799	100.0%
Costs and expenses:						
Cost of services	609,619	50.9	438,842	49.0	448,813	48.3
Operating, administrative and other	474,317	39.6	367,360	41.0	388,645	41.8
Depreciation and amortization	58,216	4.9	16,958	1.9	27,452	3.0

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Merger-related and other nonrecurring charges	20,367	1.7	36		26,923	2.9
Operating income	\$ 35,107	2.9%	\$ 72,868	8.1%	\$ 36,966	4.0%
EBITDA	\$ 107,503	9.0%	\$ 98,251	11.0%	\$ 68,226	7.3%



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	Year Ended December 31,					
	2003		2002		2001	
	(Dollars in thousands)					
<b>EMEA</b>						
Revenue	\$ 313,686	100.0 %	\$ 182,222	100.0%	\$ 161,306	100.0 %
Costs and expenses:						
Cost of services	135,854	43.3	70,309	38.6	60,309	37.4
Operating, administrative and other	151,077	48.1	90,047	49.4	84,762	52.5
Depreciation and amortization	31,287	10.0	4,579	2.5	6,492	4.0
Merger-related and other nonrecurring charges	15,958	5.1			451	0.3
Operating (loss) income	\$ (20,490)	(6.5)%	\$ 17,287	9.5%	\$ 9,292	5.8 %
EBITDA	\$ 10,609	3.4 %	\$ 21,948	12.0%	\$ 15,786	9.8 %
<b>Asia Pacific</b>						
Revenue	\$ 118,762	100.0 %	\$ 91,991	100.0%	\$ 80,657	100.0 %
Costs and expenses:						
Cost of services	50,935	42.9	37,942	41.2	33,682	41.7
Operating, administrative and other	53,003	44.6	44,391	48.3	43,998	54.5
Depreciation and amortization	3,119	2.6	3,077	3.3	3,910	4.9
Merger-related and other nonrecurring charges	492	0.4			1,195	1.5
Operating income (loss)	\$ 11,213	9.4 %	\$ 6,581	7.2%	\$ (2,128)	(2.6)%
EBITDA	\$ 14,705	12.4 %	\$ 10,477	11.4%	\$ 2,400	3.0 %

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, operating income (loss), as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments.

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We do not allocate net interest expense or provision (benefit) for income taxes among our segments. Accordingly, EBITDA for our segments is calculated as follows:

	Nine Months Ended September 30,	
	2004	2003
(In thousands)		
<b>The Americas</b>		
Operating income	\$ 50,162	\$ 16,533
Add:		
Depreciation and amortization	27,007	37,277
Equity income from unconsolidated subsidiaries	9,601	9,379
<b>EBITDA</b>	<b>\$ 86,770</b>	<b>\$ 63,189</b>
<b>EMEA</b>		
Operating income (loss)	\$ 1,140	\$ (13,137)
Add:		
Depreciation and amortization	10,093	13,856
Equity loss from unconsolidated subsidiaries	(277)	(361)
<b>EBITDA</b>	<b>\$ 10,956</b>	<b>\$ 358</b>
<b>Asia Pacific</b>		
Operating income	\$ 9,470	\$ 3,298
Add:		
Depreciation and amortization	2,901	2,438
Equity income (loss) from unconsolidated subsidiaries	796	164
<b>EBITDA</b>	<b>\$ 13,167</b>	<b>\$ 5,900</b>

	Year Ended December 31,		
	2003	2002	2001
(In thousands)			
<b>The Americas</b>			
Operating income	\$ 35,107	\$ 72,868	\$ 36,966
Add:			
Depreciation and amortization	58,216	16,958	27,452
Equity income from unconsolidated subsidiaries	14,180	8,425	3,808
<b>EBITDA</b>	<b>\$ 107,503</b>	<b>\$ 98,251</b>	<b>\$ 68,226</b>
<b>EMEA</b>			
Operating (loss) income	\$ (20,490)	\$ 17,287	\$ 9,292
Add:			

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Depreciation and amortization	31,287	4,579	6,492
Equity (loss) income from unconsolidated subsidiaries	(188)	82	2
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EBITDA</b>	<b>\$ 10,609</b>	<b>\$ 21,948</b>	<b>\$ 15,786</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Asia Pacific</b>			
Operating income (loss)	\$ 11,213	\$ 6,581	\$ (2,128)
Add:			
Depreciation and amortization	3,119	3,077	3,910
Equity income from unconsolidated subsidiaries	373	819	618
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EBITDA</b>	<b>\$ 14,705</b>	<b>\$ 10,477</b>	<b>\$ 2,400</b>
	<u>          </u>	<u>          </u>	<u>          </u>

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*Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003*

*The Americas*

Revenue increased by \$381.6 million, or 49.8%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The overall increase was primarily driven by the Insignia acquisition, which resulted in the expansion of our market share in the real estate services area of our advisory services line of business. The increase in market share resulted in higher revenues particularly relative to leasing activity, predominately in the New York area. The Insignia acquisition also drove an increase in management fees in the current year. The continued improvement of general economic conditions led to an increase in sales and lease transaction revenue, while the anticipation of higher interest rates resulted in higher loan origination fees primarily during the first part of the year.

Cost of services increased by \$233.3 million, or 61.2%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The increase was primarily due to higher commission expense, bonus accruals, insurance and benefits, producer retention and broker draw amortization as a result of the overall increase in revenue as well as due to the Insignia acquisition. The producer retention expense, which represents amounts paid to the top real estate advisory services professionals of Insignia that we retained at the time of the acquisition, is being amortized through cost of services over the respective lives of their underlying employment agreements. The broker draw amortization of \$3.9 million includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia acquisition through December 31, 2003. It also reflects the pattern in which the economic benefits of the broker draw asset acquired in the Insignia acquisition are consumed, the fair value of which was refined during the three months ended March 31, 2004. The remaining net broker draw asset of \$2.8 million will be amortized on a straight-line basis over the next ten months. Both the producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$6.3 million for the nine months ended September 30, 2004. Cost of services as a percentage of revenue increased from 49.7% in the third quarter of 2003 to 53.5% in the third quarter of 2004, primarily driven by producers reaching higher commission tranches as a result of higher revenue as well as due to the producer retention and broker draw amortization recorded in 2004 and the new mix of compensation structures as a result of compensation plans adopted in the Insignia acquisition.

Operating, administrative and other expenses increased \$118.8 million, or 37.5%. The increase was primarily driven by higher costs as a result of the Insignia acquisition, including \$3.3 million of integration costs, as well as higher payroll-related expenses, including bonuses and insurance and benefits. Additionally, we incurred higher marketing expenses, professional fees, including \$2.7 million related to Sarbanes-Oxley compliance work, and a \$3.0 million charge for the write-down of investments. The investment write-down primarily related to the write-off of our investment in Workplace IQ, Ltd. in its entirety as a result of a period of negative operating cash flows, brought about by unanticipated product delays during 2004, as well as the restructuring and recapitalization of this entity in 2004, which caused a significant decline in our ownership percentage and preference in equity distributions. During the nine months ended September 30, 2003, we also incurred additional costs as a result of our initial public offering, including one-time compensation expense of \$15.0 million related to bonus payments made to several of our non executive real estate advisory services employees as a result of provisions in their employment agreements. Additionally, during the nine months ended September 30, 2003 total operating expenses were reduced by substantial net foreign currency transaction gains as the dollar was very weak particularly relative to the Australian and New Zealand dollars, while in the current year period we experienced only moderate net foreign currency transaction losses.

*EMEA*

Revenue increased by \$143.5 million, or 85.9%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003, primarily driven by increased revenue as a result of the Insignia acquisition as well as organic growth. This was evidenced by higher sales and lease transaction revenue, particularly in London and Paris, as well as increased consultation, appraisal and management

fees, predominantly in the U.K. Foreign currency translation had a \$33.3 million positive impact on total revenue during the nine months ended September 30, 2004.

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Cost of services increased \$62.2 million, or 87.9%, as a result of higher producer compensation expense as well as increased payroll-related costs, including bonuses and insurance and benefits, particularly in the U.K. and France, primarily due to the higher revenue. Also included in producer compensation expense were integration costs of \$1.9 million, representing the amortization of bonuses paid to the top producers in the U.K., which are being amortized over the respective lives of the underlying employment agreements. Foreign currency translation had a \$14.1 million negative impact on cost of services during the nine months ended September 30, 2004.

Operating, administrative and other expenses increased by \$71.1 million, or 77.6%, mainly driven by higher payroll-related expenses, including bonuses and insurance and benefits, as well as higher marketing expenses, particularly in the U.K. and France, primarily due to the Insignia acquisition. Also, expenses in the U.K. were higher due to increased occupancy expense as a result of our relocation to a new facility in London in the fourth quarter of 2003 as well as \$8.7 million of charges related to an idle facility and a sublease termination in the U.K. Foreign currency translation had a \$17.2 million negative impact on total operating expenses during the nine months ended September 30, 2004.

### *Asia Pacific*

Revenue increased by \$33.0 million, or 44.1%, for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The increase was primarily driven by an overall increase in revenue in Australia and Japan, primarily resulting from our successful efforts to increase incremental market share in the region. Foreign currency translation had a \$10.1 million positive impact on total revenue during the nine months ended September 30, 2004.

Cost of services increased by \$17.5 million, or 53.5%, mainly attributable to higher producer compensation expense due to the increased headcount in Australia and Japan resulting from our efforts to increase our market share in this region, in addition to higher commissions as a result of higher transaction revenue. Foreign currency translation had a \$4.9 million negative impact on cost of services for the nine months ended September 30, 2004.

Operating, administrative and other expenses increased by \$8.9 million, or 24.4%, primarily due to higher payroll-related costs, including bonuses, in Australia and Japan, mainly attributable to the aforementioned increased headcount. Additionally, higher bad debt expense in Japan related to the write-off on an uncollectible receivable during the period, also contributed to the increase. Foreign currency translation had a \$4.1 million negative impact on total operating expenses during the nine months ended September 30, 2004.

### ***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

#### *The Americas*

Revenue increased by \$301.6 million, or 33.7%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily driven by the expansion of our market share in our real estate services business line through our acquisition of Insignia, particularly in the leasing industry in the New York area. Additionally, the improvement of general economic conditions in the United States led to an increase in volume of transactions resulting in significantly higher sales transaction revenue as well as increased lease transaction revenue and appraisal fees. Cost of services increased by \$170.8 million, or 38.9%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily due to higher commission expense, bonus accruals and producer retention expense as a result of the Insignia acquisition as well as the higher sales and lease transaction revenue. The producer retention expense represents bonuses paid to the top advisory services

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professionals of Insignia that we retained at the time of the acquisition that is being amortized through cost of services over the respective lives of the underlying employment agreements. The producer retention expense is considered an integration cost associated with the Insignia acquisition and amounted to \$1.5 million for the year ended December 31, 2003. Operating, administrative and other expenses increased \$107.0 million, or 29.1%, mainly caused by higher costs as a result of the Insignia acquisition, including integration expenses of \$9.1

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million, increased bonuses and payroll related costs mainly resulting from improved operating performance, and a nonrecurring legal settlement in the United States. Included in the 2003 bonus was an accrual for a one-time performance award of approximately \$6.9 million. These increases were partially offset by net foreign currency transaction gains resulting from the weakened U.S. dollar, a trend that we have experienced in 2003 and 2002.

*EMEA*

Revenue increased by \$131.5 million, or 72.1%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002, primarily driven by increased revenue as a result of the Insignia acquisition as evidenced by higher sales and lease transaction revenue as well as increased consultation and appraisal fees, predominantly in the United Kingdom and France. Foreign currency translation had a \$35.5 million positive impact on total revenue during the year ended December 31, 2003. Cost of services increased \$65.5 million, or 93.2%, as a result of higher producer compensation expense and bonuses as well as increased payroll-related costs, including insurance expense throughout Europe and pension expense in the United Kingdom, primarily due to the Insignia acquisition. Also included in producer compensation expense for 2003 were integration costs of \$1.2 million, representing the amortization of bonuses paid to the top producers of Insignia in the United Kingdom, which is being amortized over the respective lives of the underlying employment agreements. Foreign currency translation had a \$15.0 million negative impact on cost of services during the current year. Operating, administrative and other expenses increased by \$61.0 million, or 67.8%, mainly driven by increased costs as a result of the Insignia acquisition, including integration expenses of \$1.8 million, as well as higher bonus, payroll related and consulting expenses. Additionally, occupancy expense was higher in the United Kingdom as a result of our relocation to a new facility. Lastly, foreign currency translation had a \$16.4 million negative impact on total operating expenses during the year ended December 31, 2003.

*Asia Pacific*

Revenue increased by \$26.8 million, or 29.1%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by an overall increase in revenue in Australia and New Zealand, primarily resulting from our incremental efforts to increase our market share in the region as well as due to our organic growth. Foreign currency translation had a \$13.8 million positive impact on total revenue during the current year. Cost of services increased by \$13.0 million, or 34.2%, mainly attributable to increased transaction revenue as well as higher producer compensation expense due to increased headcount in Australia and New Zealand resulting from our incremental efforts to increase our market share in this region. Foreign currency translation had a \$6.1 million negative impact on cost of services for the year ended December 31, 2003. Operating, administrative and other expenses increased by \$8.6 million, or 19.4%, primarily due to an increased accrual for long-term incentives as well as higher payroll related costs in Australia and New Zealand. The long-term incentive plan term ended in 2003 with payout of approximately \$7.8 million anticipated in early 2004. We anticipate implementing a new long-term incentive plan starting in 2004. Foreign currency translation also had a \$5.6 million negative impact on total operating expenses during the year ended December 31, 2003.

***Year Ended December 31, 2002 Compared to Year Ended December 31, 2001****The Americas*

Revenue decreased by \$32.7 million, or 3.5%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, primarily driven by a lower average value per transaction in lease transaction revenue resulting from the continued softness in the leasing industry in the United States combined with a nonrecurring sale of mortgage fund contracts of \$5.6 million in 2001. These decreases were



partially offset by higher sales transaction revenue, which was driven by a higher number of transactions as well as a higher average value per transaction, primarily due to investment property sales. The improvement in sales transaction revenue continued in 2003. Cost of services decreased by \$10.0 million, or 2.2%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, caused primarily by lower variable commissions

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commensurate with lower lease transaction revenue. Operating, administrative and other expenses decreased by \$21.3 million, or 5.5%, as a result of cost reduction and efficiency measures, the organizational restructuring implemented after our acquisition of CB Richard Ellis Services in 2001, and foreign currency transaction and settlement gains resulting from the weaker U.S. dollar. The trend of foreign currency transaction gains resulting from the weakening U.S. dollar continued throughout 2003.

### *EMEA*

Revenue increased by \$20.9 million, or 13.0%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This was mainly driven by higher sales transaction revenue across Europe as the general economy in this region improved. Foreign currency translation had an \$8.9 million positive impact on total revenue during the year ended December 31, 2002. Cost of services increased by \$10.0 million, or 16.6%, due to higher producer compensation as a result of increased revenue arising from expanded activities in Europe. Foreign currency translation had a \$3.4 million negative impact on cost of services during the year ended December 31, 2002. Operating, administrative and other expenses increased by \$5.3 million, or 6.2%, mainly attributable to higher incentives due to improved results, higher occupancy costs and consulting fees. Foreign currency translation also had a \$3.7 million negative impact on total operating expenses during the year ended December 31, 2002.

### *Asia Pacific*

Revenue increased by \$11.3 million, or 14.1%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This increase was primarily driven by higher investment management fees in Japan and an increase in overall revenue in Australia and New Zealand due to increased efforts to expand our market share in these locations, partially offset by lower revenues as a result of the sale of our wholly owned operations in Thailand, the Philippines and India. Foreign currency translation had a \$2.8 million positive impact on total revenue during the year ended December 31, 2002. Cost of services increased by \$4.3 million, or 12.6%, primarily driven by higher producer compensation expense due to increased personnel in Australia, New Zealand and China, slightly offset by lower commissions due to conversions to affiliate offices elsewhere in Asia. Foreign currency translation had a \$1.3 million negative impact on cost of services for the year ended December 31, 2002. Operating, administrative and other expenses increased by \$0.4 million, or 0.9%, primarily due to increased bonuses as a result of improved results in Australia and New Zealand, partially offset by lower expenses as a result of sales of operations in Asia. Foreign currency translation also had a \$1.1 million negative impact on total operating expenses during the year ended December 31, 2002.

## **Liquidity and Capital Resources**

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under the revolving credit facility of our amended and restated credit agreement described below. Included in the capital requirements that we expect to be able to fund during 2004 are approximately \$40.0 million of anticipated capital expenditures, net of concessions received, of which \$27.5 million has been funded on or prior to September 30, 2004. The capital expenditures for 2004 are primarily composed of information technology costs, which are driven largely by computer replacement costs as well as costs associated with upgrading various servers and systems, and leasehold improvements.

During both 2001 and 2003, we required substantial amounts of new equity and debt financing to fund our acquisitions of CB Richard Ellis Services and Insignia Financial Group. Absent extraordinary transactions such as these, we historically have not needed sources of financing other than our internally generated cash flow and our revolving credit facility to fund our working capital, capital expenditures and investment requirements. As a result, our management anticipates that our cash flow from operations and revolving credit facility will be sufficient to meet

our anticipated cash requirements for the foreseeable future, but at a minimum for the next twelve months.

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From time to time, we consider potential strategic acquisitions. Our management believes that any future significant acquisitions that we make most likely would require us to obtain additional debt or equity financing. In the past, we have been able to obtain such financing for other material transactions on terms that our management believed to be reasonable. However, it is possible that we may not be able to find acquisition financing on favorable terms in the future, if we decide to make any material acquisitions.

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan in 2010, our 9<sup>3/4</sup>% senior notes in 2010 and our 11<sup>1/4</sup>% senior subordinated notes in 2011. During June 2004, we used a portion of the net proceeds we received from our June 15, 2004 initial public offering to prepay \$15.0 million in principal amount of the senior secured term loan under our amended and restated credit agreement. During July 2004, we used the remaining net proceeds received from the initial public offering to redeem all \$38.3 million in aggregate principal amount of the remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9<sup>3/4</sup>% senior notes. In the future, we will continue to look for opportunities to reduce debt, which is consistent with our de-leveraging efforts thus far in 2004. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot make any assurances that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

The other primary component of our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, are our obligations related to our deferred compensation plan and our U.K. pension plans. Pursuant to our deferred compensation plans, a select group of our management and other highly-compensated employees have been permitted to defer receipt of some or all of their compensation until future distribution dates and have the deferred amount credited towards specified investment alternatives. Except for deferrals into stock fund units that provide for future issuances of our common stock, the deferrals under the deferred compensation plans represent future cash payment obligations for us. We currently have invested in insurance funds for the purpose of funding approximately half of our future cash deferred compensation obligations. In addition, upon each distribution under the plans, we receive a corresponding tax deduction for such compensation payment. Our U.K. subsidiaries maintain pension plans with respect to which a limited number of our U.K. employees are participants. Our historical policy has been to fund pension costs as actuarially determined and as required by applicable law and regulations. As of December 31, 2003, based upon actuarial calculations of future benefit obligations under these plans, these plans were in the aggregate approximately \$44.2 million underfunded. Our management expects that any future obligations under our deferred compensation plans and pension plans that are not currently funded will be funded out of our future cash flow from operations.

**Summary of Contractual Obligations and Other Commitments**

The following is a summary of our various contractual obligations and other commitments as of September 30, 2004, except for operating leases which are as of December 31, 2003:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
	(In thousands)				
Total debt (1)	\$ 755,306	\$ 151,257	\$ 24,342	\$ 244,634	\$ 335,073
Operating leases (2)	710,262	96,123	167,164	134,094	312,881
Deferred compensation plan liability (3)	146,709	6,048	15,702	17,470	107,489
Pension liability (3)	36,565				36,565

Total Contractual Obligations	\$ 1,648,842	\$ 253,428	\$ 207,208	\$ 396,198	\$ 792,008
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*(footnotes on following page)*

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<b>Other Commitments</b>	<b>Amount of Commitments Expected by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
	(In thousands)				
Letters of credit (4)	\$ 6,070	\$ 6,070	\$	\$	\$
Guarantees	5,100	3,900		1,200	
Co-investment commitments	41,700	35,091	6,609		
<b>Total Commitments</b>	<b>\$ 52,870</b>	<b>\$ 45,061</b>	<b>\$ 6,609</b>	<b>\$ 1,200</b>	<b>\$</b>

- (1) Includes capital lease obligations.
- (2) See note 13 to our audited consolidated financial statements included elsewhere in this prospectus.
- (3) Because these obligations are related, either wholly or partially, to the future retirement of our employees and such retirement dates are not predictable, an undeterminable portion of this amount will be paid in future years.
- (4) Excludes letters of credit related to our subsidiaries' outstanding indebtedness and operating leases.

**Historical Cash Flows***Operating Activities*

Net cash provided by operating activities totaled \$38.6 million for the nine months ended September 30, 2004, an increase of \$109.3 million compared to the nine months ended September 30, 2003. The acquisition of Insignia Financial Group on July 2003 has impacted substantially all components of cash used in our operating activities making comparison against the same period in the prior year not meaningful.

Net cash provided by operating activities totaled \$63.9 million for the year ended December 31, 2003, a decrease of \$0.9 million compared to the year ended December 31, 2002. The acquisition of Insignia in July 2003 has impacted substantially all components of cash provided by our operating activities making comparison against the prior year not meaningful.

Net cash provided by operating activities totaled \$64.9 million for the year ended December 31, 2002, an increase of \$93.8 million compared to the year ended December 31, 2001. This increase was primarily due to our improved 2002 earnings, as well as lower payments made in the year ended December 31, 2002 for 2001 bonus and profit sharing as compared to the 2000 bonus and profit sharing payments made in the year ended December 31, 2001.

*Investing Activities*

Net cash provided by investing activities totaled \$8.8 million for the nine months ended September 30, 2004, representing an increase of \$261.5 million compared to the nine months ended September 30, 2003. This increase was primarily due to the Insignia acquisition. In addition, during the nine months ended September 30, 2004, we received proceeds from the sale of property held for sale related to a real estate investment in Japan. These increases were slightly offset by an increase in capital expenditures, net of landlord concessions received, of \$19.3 million, primarily resulting from integration costs related to leasehold improvements in new and combined offices as a result of the Insignia acquisition as well as a decrease in concessions received during the nine months ended September 30, 2004.

Net cash used in investing activities totaled \$284.8 million for the year ended December 31, 2003, an increase of \$260.7 million compared to the year ended December 31, 2002. This increase was primarily due to costs incurred in 2003 associated with the Insignia acquisition. Capital expenditures, net of concessions received, of \$27.0 million during the year ended December 31, 2003 were \$12.7 million higher than 2002. This increase was mainly driven by net capital expenditures incurred in connection with our relocation to new offices in the United Kingdom in 2003.

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We utilized \$24.1 million in investing activities during the year ended December 31, 2002, a decrease of \$249.4 million compared to the year ended December 31, 2001. This decrease was primarily due to the prior year payment of the purchase price and related expenses associated with our acquisition of CB Richard Ellis Services in July 2001. Capital expenditures, net of concessions received, of \$14.3 million during the year ended December 31, 2002 were \$7.0 million lower than 2001, driven primarily by efforts to reduce spending and improve cash flows.

### *Financing Activities*

Net cash used in financing activities totaled \$61.7 million for the nine months ended September 30, 2004 as compared to net cash provided by financing activities of \$328.5 million for the nine months ended September 30, 2003. The decrease was primarily driven by debt repayments made in 2004 as well as a net increase in debt in the prior year mainly relating to the debt financing required by the Insignia acquisition. The impact of these items was partially offset by the repayment of Insignia notes payable in the prior year as well as higher deferred financing fees paid in the prior year.

Net cash provided by financing activities totaled \$303.7 million for the year ended December 31, 2003 compared to net cash used in financing activities of \$17.8 million for the year ended December 31, 2002. This increase was mainly attributable to the additional net debt and equity financing resulting from the Insignia acquisition.

Net cash used in financing activities totaled \$17.8 million for the year ended December 31, 2002 compared to cash provided by financing activities of \$340.1 million for the year ended December 31, 2001. This decrease was mainly attributable to the debt and equity financing required for our acquisition of CB Richard Ellis Services in 2001.

### *Initial Public Offering*

On June 15, 2004, we completed our initial public offering of shares of our Class A common stock. In connection with our initial public offering, we issued and sold 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with our initial public offering, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately \$290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately \$4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sale of shares by the selling stockholders on June 15, 2004 and July 14, 2004.

### *Indebtedness*

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness and other obligations. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase. For additional information regarding the terms of certain of our long-term indebtedness, see the information under the heading titled Description of Certain Long-Term Indebtedness.



Most of our long-term indebtedness was incurred in connection with our acquisition of CB Richard Ellis Services in July 2001 and the Insignia acquisition. The CB Richard Ellis Services acquisition, which was a

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going private transaction involving members of our senior management, affiliates of Blum Capital Partners and Freeman Spogli & Co. and some of our other existing stockholders, was undertaken so that we could take advantage of growth opportunities and focus on improvements in the CB Richard Ellis Services businesses. The Insignia acquisition increased the scale of our real estate services and outsourcing services businesses as well as significantly increasing our presence in the New York, London and Paris metropolitan areas.

Since 2001, we have maintained a credit agreement with Credit Suisse First Boston and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our initial public offering, we completed a refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement, which became effective in connection with such refinancing.

Our amended and restated credit agreement permitted us, among other things, to use the net proceeds we received from our initial public offering to pay down debt, including the redemptions in July 2004 of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010, and the prepayment of \$15.0 million in principal amount of our term loan under our amended and restated credit agreement, which prepayment occurred on June 15, 2004.

Effective November 16, 2004, we amended our amended and restated credit agreement to reduce the interest rates applicable to the term loan facility, as described below, and to modify some of the restrictive covenants in the agreement that are described below.

Our amended and restated credit agreement includes the following: (1) a term loan facility of \$295.0 million (of which \$280.0 million was outstanding as of September 30, 2004), requiring quarterly principal payments of \$2.95 million beginning December 31, 2004 through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$150.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on March 31, 2009. Our amended and restated credit agreement also permits us to borrow up to \$25.0 million of additional term loans under our term loan facility, subject to the satisfaction of customary conditions.

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate is the higher of (1) Credit Suisse First Boston's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the amended and restated credit agreement, at a higher or lower rate. During June 2004, we used a portion of the net proceeds we received from our initial public offering to prepay \$15.0 million in principal amount of the term loan facility. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$280.0 million and \$297.5 million as of September 30, 2004 and December 31, 2003, respectively.

Borrowings under the revolving credit facility bear interest at varying rates based, at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the amended and restated credit agreement). As of September 30, 2004 and December 31, 2003, we had no revolving credit facility principal outstanding. As of September 30, 2004, letters of credit totaling \$24.3 million were outstanding, which letters of credit primarily relate to our subsidiaries' outstanding indebtedness and operating leases and reduce the amount we may borrow under the revolving credit facility.



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Borrowings under our amended and restated credit agreement are jointly and severally guaranteed by us and substantially all of our domestic subsidiaries and are secured by a pledge of substantially all of our assets. Additionally, our amended and restated credit agreement requires us to pay a fee based on the total amount of the unused revolving credit facility commitment.

In May 2003, in connection with the Insignia acquisition, CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, issued \$200.0 million in aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% senior notes, which are due May 15, 2010. CBRE Escrow, Inc. merged with and into CB Richard Ellis Services, and CB Richard Ellis Services assumed all obligations with respect to the 9<sup>3</sup>/<sub>4</sub>% senior notes in connection with the Insignia acquisition. The 9<sup>3</sup>/<sub>4</sub>% senior notes are unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services' current and future secured indebtedness. The 9<sup>3</sup>/<sub>4</sub>% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on May 15 and November 15. The 9<sup>3</sup>/<sub>4</sub>% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9<sup>3</sup>/<sub>4</sub>% senior notes at 109<sup>3</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our initial public offering to redeem \$70.0 million in aggregate principal amount, or 35.0%, of our 9<sup>3</sup>/<sub>4</sub>% senior notes, which also required the payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption. In the event of a change of control (as defined in the indenture governing our 9<sup>3</sup>/<sub>4</sub>% senior notes), we are obligated to make an offer to purchase the 9<sup>3</sup>/<sub>4</sub>% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9<sup>3</sup>/<sub>4</sub>% senior notes included in the accompanying consolidated balance sheets was \$130.0 million and \$200.0 million as of September 30, 2004 and December 31, 2003, respectively.

In June 2001, in order to partially finance our acquisition of CB Richard Ellis Services, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CB Richard Ellis Services assumed all obligations with respect to the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in connection with the merger of Blum CB Corp. with and into CB Richard Ellis Services on July 20, 2001. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes are unsecured senior subordinated obligations of CB Richard Ellis Services and rank equally in right of payment with any of CB Richard Ellis Services' existing and future unsecured senior subordinated indebtedness, but are subordinated to any of CB Richard Ellis Services' existing and future senior indebtedness. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111<sup>1</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes), we are obligated to make an offer to purchase the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 2004, we repurchased \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market. We paid an aggregate of \$3.1 million of premiums in connection with these open market purchases. The amount of the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$205.0 million and \$226.2 million as of September 30, 2004 and December 31, 2003, respectively.

Also, to partially fund our acquisition of CB Richard Ellis Services in 2001, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes were unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrued at a rate of 16.0% per year and was payable quarterly in arrears.

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Under the terms of the indenture governing the 16% senior notes and subject to the restrictions set forth in our amended and restated credit agreement, the notes were redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. During July 2004, we used a portion of the net proceeds we received from our initial public offering to redeem the remaining \$38.3 million in aggregate principal amount of our 16% senior notes, which also required the payment of a \$2.5 million premium and accrued and unpaid interest through the date of redemption. The amount of the 16% senior notes included in the accompanying consolidated balance sheet, net of unamortized discount, was \$35.5 million as of December 31, 2003.

Our amended and restated credit agreement and the indentures governing our 9<sup>3</sup>/<sub>4</sub>% senior notes and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our amended and restated credit agreement also currently requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA (as defined in the amended and restated credit agreement) to funded debt.

From time to time, Moody's Investors Service and Standard & Poor's Ratings Service rate our outstanding senior secured term loan, our 9<sup>3</sup>/<sub>4</sub>% senior notes and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes. Although neither the Moody's nor the Standard & Poor's ratings impact our ability to borrow, they may affect the applicable interest rate for our senior secured term loan. In addition, these ratings may impact our ability to borrow under new agreements in the future and the interest rates of any such future borrowings.

A joint venture that we have consolidated since 2001 incurred non-recourse debt to acquire a real estate investment in Japan in 2001. This debt was secured by a mortgage on the acquired real estate asset. During August 2004, the joint venture completed the sale of this real estate asset and utilized the proceeds from the sale to repay all of the non-recourse debt, plus accrued interest and other fees. In our accompanying consolidated balance sheet, this debt comprised \$2.0 million of our other short-term borrowings and \$41.8 million of our other long-term debt as of December 31, 2003.

Our wholly owned subsidiary, L.J. Melody & Company, has a credit agreement with Residential Funding Corporation, or RFC, for the purpose of funding mortgage loans that will be resold. On August 19, 2004, we entered into a Third Amendment to the Fourth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit). The current agreement provides for a warehouse line of credit of up to \$250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on December 1, 2004. We expect that prior to December 1, 2004 L.J. Melody will be able to reach a satisfactory amendment to extend the term of the agreement with RFC or to enter into an agreement with another third party to provide substitute financing arrangements for the purpose of funding mortgage loans. However, if L.J. Melody is unable to do so, the business and results of operations of our mortgage loan origination and servicing line of business may be adversely affected. During the quarter ended September 30, 2004, we had a maximum of \$244.6 million warehouse line of credit principal outstanding with RFC. As of September 30, 2004 and December 31, 2003, we had a \$111.8 million and a \$230.8 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had \$111.8 million and \$230.8 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased as of September 30, 2004 and December 31, 2003, respectively, which are also included in the accompanying consolidated balance sheets included elsewhere in this prospectus.

In connection with our acquisition of Westmark Realty Advisors in 1995, which significantly expanded our investment management services business, we issued approximately \$20.0 million in aggregate principal amount

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of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2003. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. During the year ended December 31, 2002, all of the Westmark senior notes bore interest at 9.0%. On January 1, 2003, the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our credit agreement. On January 1, 2005, the interest rate on all of the other Westmark senior notes will be adjusted to equal the interest rate then in effect with respect to amounts outstanding under our credit agreement. The amount of the Westmark senior notes included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus was \$12.1 million as of September 30, 2004 and December 31, 2003.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the United Kingdom, which was part of Insignia's business strategy of increasing its presence in that country. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of September 30, 2004 and December 31, 2003, \$9.7 million and \$12.2 million, respectively, of the acquisition loan notes were outstanding, which are included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. The amount of the Euro cash pool loan included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus was \$3.5 million and \$11.5 million as of September 30, 2004 and December 31, 2003, respectively.

***Deferred Compensation Plan Obligations***

We have two deferred compensation plans, one of which has been frozen and is no longer accepting deferrals, which we refer to as the Old DCP, and one of which became effective on August 1, 2004 and began accepting deferrals on August 13, 2004, which we refer to as the New DCP. Because a substantial majority of the deferrals under both the Old DCP and the New DCP have a distribution date based upon the end of the relevant participant's employment with us, we have an ongoing obligation to make distributions to these participants as they leave our employment. In addition, participants may receive unscheduled in-service withdrawals subject to a 7.5% penalty. As the level of employee departures or in-service distributions is not predictable, the timing of these obligations also is not predictable. Accordingly, we may face significant unexpected cash funding obligations in the future if a larger number of our employees than we expect take in-service distributions or leave our employment.

***Old DCP***

Prior to amending the Old DCP as discussed below, each participant in the Old DCP was allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 80 mutual funds. Distributions with respect to the interest index and insurance fund accounts are made by us in cash. In addition, prior to July 2001, participants were entitled to invest their deferrals in stock fund units that are distributed as shares of our Class A common stock. As of October 31, 2004, there were 2,717,313 outstanding stock fund units under the Old DCP, all of which were vested. The deferred compensation liability in the accompanying consolidated balance sheets was \$146.7 million and \$138.0 million at September 30, 2004 and December 31, 2003, respectively.



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Effective January 1, 2004, we closed the Old DCP to new participants. Until January 1, 2005, the Old DCP will continue to accept compensation deferrals from those participants who currently have a balance in the plan, meet the eligibility requirements and elect to participate, in each case up to a maximum annual contribution amount of \$250,000 per participant. Effective January 1, 2005, no additional deferrals will be permitted under this plan. Existing account balances under the plan will be paid to participants in the future according to their existing deferral elections. However, all participants may make unscheduled in-service withdrawals of their account balances, including the shares of Class A common stock underlying stock fund units, if they pay a penalty equal to 7.5% and the taxes due on the value of the withdrawal.

Prior to our initial public offering, all shares held by our current and former employees and consultants, including any shares that such employees and consultants are entitled to receive as distributions with respect to stock fund units in the Old DCP, were subject to transfer restrictions. In connection with our initial public offering, we waived all of these transfer restrictions. As a result, all of these shares, including any shares received as future distributions with respect to stock fund units in the Old DCP, may be sold, subject to applicable securities law requirements. Shortly after our initial public offering, we filed a registration statement on Form S-8 that registered, among other things, the shares of Class A common stock to be distributed in the future with respect to stock fund units in the Old DCP. We have entered into agreements with participants in the Old DCP holding stock fund units with 2,280,831 underlying shares of Class A common stock pursuant to which these participants have agreed to sell no more than 20% of the shares underlying their current stock fund unit balances during any year over the next five years in exchange for fixed cash payments by us to these participants.

### *New DCP*

Effective August 1, 2004, we adopted the New DCP, which began accepting deferrals for compensation otherwise earned after August 13, 2004. Under the New DCP, each participant is allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. Deferrals are credited at the participant's election to one or more investment alternatives under the New DCP, which include a money-market fund and a mutual fund investment option. There is limited flexibility for participants to change distribution elections once made. However, all participants may make unscheduled in-service withdrawals of their account balances if they pay a penalty equal to 7.5% and the taxes due on the value of the withdrawal.

### *Pension Liability*

Our subsidiaries based in the United Kingdom maintain two defined benefit pension plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm and as required by applicable laws and regulations. Our contributions to these plans are invested and, if these investments do not perform in the future as well as we expect, we will be required to provide additional funding to cover the shortfall. The pension liability in our consolidated balance sheets included elsewhere in this prospectus was \$36.6 million and \$36.0 million at September 30, 2004 and December 31, 2003, respectively. We expect to contribute a total of \$4.9 million to fund our pension plan for the year ended December 31, 2004, of which \$3.8 million was funded as of September 30, 2004.

### *Other Obligations and Commitments*

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of September 30, 2004, an aggregate of



approximately \$5.2 million of this letter of credit support remained outstanding under the

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purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island Fund agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$2.9 million as security for Island Fund's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island Fund will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island Fund's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island Fund.

L.J. Melody & Company previously executed an agreement with Federal National Mortgage Association, or Fannie Mae, to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and L.J. Melody retains the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. As of September 30, 2004, the loan portfolio balance was \$85.8 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$0.9 million. The other 1% is covered in the form of a guarantee to Fannie Mae by L.J. Melody.

We had letters of credit totaling \$6.1 million as of September 30, 2004, excluding letters of credit related to our subsidiaries' outstanding indebtedness and operating leases. Approximately \$5.2 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island Fund described above. The remaining \$0.9 million outstanding letter of credit is for the Fannie Mae letter of credit as described above. The outstanding letters of credit as of September 30, 2004 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island Fund purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$5.1 million as of September 30, 2004, which consisted primarily of guarantees of property debt as well as the obligations to Island Fund and Fannie Mae discussed above. Approximately \$1.2 million of the guarantees is related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island Fund purchase agreement expired on the September 15, 2004 maturity date of the underlying loan agreement, however, similar loan terms are expected to be renewed, modified or extended upon the completion of on-going negotiations. Currently, renewals, modifications and extensions to such loan may be made without our consent in connection with any such renewal, modification or extension. The guarantee obligation related to the agreement with Fannie Mae discussed above will expire in December 2004.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of September 30, 2004, we had committed \$41.7 million to fund future co-investments. We expect that approximately \$11.0 million of these commitments will be funded during 2004. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

## **Seasonality**

A significant portion of our revenue is seasonal, which affects your ability to compare our financial condition and results of operations on a quarter-by-quarter basis. Historically, this seasonality has caused our revenue, operating income, net income and cash flow from operating activities to be lower in the first two quarters and higher in the third and fourth quarters of each year. The concentration of earnings and cash flow in the fourth quarter is due to an industry-wide focus on completing transactions toward the fiscal year-end. This has historically resulted in lower profits or a loss in the first and second quarters, with profits growing or losses decreasing in each subsequent quarter.



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### **Inflation**

Our commissions and other variable costs related to revenue are primarily affected by real estate market supply and demand, which may be affected by general economic conditions including inflation. However, to date, we do not believe that general inflation has had a material impact upon our operations.

### **Application of Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. We believe that the following critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements:

#### ***Revenue Recognition***

We record real estate commissions on sales upon close of escrow or upon transfer of title. Real estate commissions on leases are generally recorded as income once we satisfy all obligations under the commission agreement. A typical commission agreement provides that we earn a portion of the lease commission upon the execution of the lease agreement by the tenant, while the remaining portion(s) of the lease commission is earned at a later date, usually upon tenant occupancy. The existence of any significant future contingencies will result in the delay of recognition of revenue until such contingencies are satisfied. For example, if we do not earn all or a portion of the lease commission until the tenant pays its first month's rent, and the lease agreement provides the tenant with a free rent period, we delay revenue recognition until cash rent is paid by the tenant. Investment management and property management fees are recognized when earned under the provisions of the related agreements. Appraisal fees are recorded after services have been rendered. Loan origination fees are recognized at the time the loan closes and we have no significant remaining obligations for performance in connection with the transaction, while loan servicing fees are recorded to revenue as monthly principal and interest payments are collected from mortgagors. Other commissions, consulting fees and referral fees are recorded as income at the time the related services have been performed unless significant future contingencies exist.

In establishing the appropriate provisions for trade receivables, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivables balances. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are more than 180 days overdue are fully provided for.

#### ***Principles of Consolidation***

Our consolidated financial statements included elsewhere in this prospectus include our accounts and those of our majority owned subsidiaries. Additionally, the consolidated financial statements included elsewhere in this prospectus include the accounts of CB Richard Ellis Services prior to the date we acquired it in 2001, as CB Richard Ellis Services is considered our predecessor for purposes of Regulation S-X. The equity attributable to minority shareholders' interests in subsidiaries is shown separately in our consolidated balance sheets included elsewhere in this prospectus. All significant intercompany accounts and transactions have been eliminated in consolidation.

Our investments in unconsolidated subsidiaries in which we have the ability to exercise significant influence over operating and financial policies, but do not control, are accounted for under the equity method. Accordingly, our share of the earnings of these equity-method basis companies is included in consolidated net income. All other investments held on a long-term basis are valued at cost less any impairment in value.

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### ***Goodwill and Other Intangible Assets***

Goodwill mainly represents the excess of the purchase price paid by us over the fair value of the tangible and intangible assets and liabilities acquired in our acquisition of CB Richard Ellis Services in 2001 and our acquisition of Insignia Financial Group in 2003. Other intangible assets include trademarks, which were separately identified as a result of the 2001 acquisition, as well as a trade name separately identified as a result of the Insignia acquisition representing the Richard Ellis trade name in the United Kingdom that was owned by Insignia prior to the Insignia acquisition. Both the trademarks and the trade name are not being amortized and have indefinite estimated useful lives. Other intangible assets also include backlog, which represents the fair value of Insignia's net revenue backlog as of July 23, 2003 that was acquired as part of the Insignia acquisition. The net revenue backlog consists of the net commission receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia acquisition. Net revenue backlog is being amortized as cash is received or upon final closing of these pending transactions. The remaining other intangible assets primarily include management contracts, loan servicing rights, franchise agreements and a trade name, which are all being amortized on a straight-line basis over estimated useful lives ranging up to 20 years.

We fully adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002. This statement requires us to perform at least annually an assessment of impairment of goodwill and other intangible assets deemed to have indefinite useful lives based on assumptions and estimates of fair value and future cash flow information. We perform an annual assessment of our goodwill and other intangible assets deemed to have indefinite lives for impairment based in part on a third-party valuation as of the beginning of the fourth quarter of each year. We also assess goodwill and other intangible assets deemed to have indefinite useful lives for impairment when events or circumstances indicate that their carrying value may not be recoverable from future cash flows. We completed our required annual impairment tests as of October 1, 2003 and 2002 and determined that no impairment existed as of those dates. We are in the process of completing our annual impairment test for 2004.

### **New Accounting and Tax Pronouncements**

On March 31, 2004, the Financial Accounting Standards Board, or FASB, issued its Exposure Draft, *Share-Based Payment*, which is a proposed amendment to Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation*. The amendment would require all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values, which would include all unvested grants at the time of adoption. The FASB expects to issue a final standard late in 2004. On October 13, 2004, the FASB decided that the final amendment would be effective for public companies for any interim or annual period beginning after June 15, 2005, though early adoption would be encouraged. The adoption of this Exposure Draft is not expected to have a material impact on our financial position or results of operations.

In October 2004, the American Jobs Creation Act of 2004 was passed. We are currently assessing the impact of this law on our operations, particularly relative to provisions on repatriation of foreign earnings as well as deferred compensation. We do not expect this act to have a material impact on our financial position or results of operations.

### **Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to market risk consists of foreign currency exchange rate fluctuations related to our international operations and changes in interest rates on debt obligations.

*Exchange Rates*

Approximately 30.2% of our business was transacted in local currencies of foreign countries for the nine months ended September 30, 2004 and the year ended December 31, 2003, the majority of which included the Euro, the British pound sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. We attempt to manage our exposure primarily by balancing assets and liabilities, and maintaining cash positions in

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foreign countries only at levels necessary for operating purposes. However, we do not enter into agreements to hedge the risks associated with translation of foreign currencies into U.S. dollars. As a result, fluctuations in foreign currency exchange rates affect reported amounts of our total assets and liabilities, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the exchange rate in effect on the respective balance sheet dates, and our total revenues and expenses, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the monthly average exchange rate. For example, during 2003, the U.S. dollar dropped against many of the currencies in which we conduct business. During the nine months ended September 30, 2004, foreign currency translation had a \$46.8 million positive impact on total revenue and a \$43.3 million negative impact on our total costs of services and operating, administrative and other expenses. During the year ended December 31, 2003, foreign currency translation had a \$54.4 million positive impact on our total revenue and a \$47.3 million negative impact on our total costs of services and operating, administrative and other expenses.

We routinely monitor our exposure to currency exchange rate changes in connection with transactions and sometimes enter into foreign currency exchange forward and option contracts to limit our exposure to such transactions, as appropriate. In the normal course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange forward contracts to mitigate foreign currency exchange exposure resulting from intercompany loans. In all cases, we view derivative financial instruments as a risk management tool and, accordingly, do not engage in any speculative activities with respect to foreign currency. At September 30, 2004, we had foreign currency exchange forward contracts with an aggregate notional amount of \$12.0 million, which expire on various dates through December 31, 2004. The net impact on our earnings for the nine months ended September 30, 2004 resulting from unrealized gains and/or losses on these foreign currency exchange forward contracts was not significant. On April 6, 2004, we entered into an option agreement to purchase an aggregate notional amount of 8.7 million British pounds sterling, which would have expired on December 29, 2004. On July 2, 2004, we entered into an option agreement to purchase an aggregate notional amount of 18.8 million euros, which also would have expired on December 29, 2004. During October 2004, we sold both of these option agreements and entered into two new option agreements to purchase an aggregate notional amount of 10.2 million British pounds sterling for a cost of \$0.3 million and 20.0 million euros for a cost of \$0.4 million, both of which expire on December 29, 2004. The net impact on our earnings resulting from gains and/or losses on these option agreements has not been, and is not expected to be, material.

We also enter into loan commitments that relate to the origination or acquisition of commercial mortgage loans that will be held for resale. SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, requires that these commitments be recorded at their relative fair values as derivatives. The net impact on our financial position for the nine months ended September 30, 2004 resulting from these derivative contracts was not significant.



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We manage our interest expense by using a combination of fixed and variable rate debt. Our fixed and variable rate long-term debt at September 30, 2004 consisted of the following:

<u>Year of Maturity</u>	<u>Fixed Rate</u>	<u>One-Month LIBOR +1.0%</u>	<u>Three to Six-Month LIBOR +2.5%</u>	<u>Interest Rate Range of 1.0% to 6.25%</u>	<u>Six-Month Yen LIBOR +3.75%</u>	<u>Six-Month GBP LIBOR 2.0%</u>	<u>Total</u>
(Dollars in thousands)							
2004	\$ 16,936	\$ 111,840	\$ 13,806 (1)	\$ 4,320	\$ 182	\$ 4,173	151,257
2005	361		11,800		364		12,525
2006	17		11,800				11,817
2007	17		11,800				11,817
2008	17		232,800 (2)				232,817
Thereafter (3)	335,073						335,073
<b>Total</b>	<b>\$ 352,421</b>	<b>\$ 111,840</b>	<b>\$ 282,006</b>	<b>\$ 4,320</b>	<b>\$ 546</b>	<b>\$ 4,173</b>	<b>\$ 755,306</b>
<b>Weighted average interest rate</b>	<b>10.5%</b>	<b>2.8%</b>	<b>4.5%</b>	<b>5.5%</b>	<b>3.8%</b>	<b>1.5%</b>	<b>7.0%</b>

(1) Includes \$11.8 million relating to our senior secured credit facilities and \$2.0 million related to our Westmark senior notes (see note 11 to our unaudited consolidated financial statements included elsewhere in this prospectus).

(2) Consists of amounts due under our senior secured credit facilities.

(3) Primarily includes our 11 <sup>1</sup>/<sub>4</sub>% senior subordinated notes and 9 <sup>3</sup>/<sub>4</sub>% senior notes.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 40 basis points, which would comprise approximately 10% of the weighted average interest rates of our outstanding variable rate debt at September 30, 2004, the net impact would be a decrease of \$1.2 million on pre-tax income and cash provided by operating activities for the nine months ended September 30, 2004.

Based on dealers' quotes at September 30, 2004, the estimated fair values of our 9 <sup>1</sup>/<sub>4</sub>% senior notes and our 11 <sup>1</sup>/<sub>4</sub>% senior subordinated notes were \$148.2 million and \$238.5 million, respectively. Estimated fair values for the term loan under our senior secured credit facilities and our remaining long-term debt are not presented because we believe that they are not materially different from book value, primarily because the majority of our remaining debt is based on variable rates that approximate terms that we believe could be obtained at September 30, 2004.

We historically have not entered into agreements with third parties for the purpose of hedging our exposure to changes in interest rates. Although we do not have any current intentions to enter into such agreements in the future, we may do so in connection with our on-going

assessment of our interest rate exposure. If we do enter into any such agreements, we would do so for risk management purposes only and not to engage in speculative activities with respect to interest rates. We would apply SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, when accounting for any such derivatives.

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### **BUSINESS**

#### **Overview**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003, we operated in 220 offices worldwide with over 13,500 employees, excluding affiliate and partner offices, providing commercial real estate services under the CB Richard Ellis brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees. For the year ended December 31, 2003, approximately 87.3% of our revenue related to engagements on a per project or transaction basis and approximately 12.7% of our revenue related to ongoing management fee engagements.

We have a well-balanced, highly diversified base of clients that includes more than 60% of the *Fortune 100*. Many of our clients are consolidating their commercial real estate-related expenditures with fewer providers and, as a result, awarding their business to those providers that have a strong presence in important markets and the ability to provide a complete range of services worldwide. As a result of this trend and our ability to deliver comprehensive solutions for our clients' needs across a wide range of markets, we believe we are well positioned to capture a growing percentage of our clients' commercial real estate services expenditures.

#### **Our History**

We trace our roots to a San Francisco-based firm formed in 1906 that grew to become one of the largest commercial real estate services firms in the western United States during the 1940s. In the 1960s and 70s, the company expanded both its service portfolio and geographic coverage to become a full-service provider with a growing presence throughout the United States.

In 1989, employees and third-party investors acquired the company's operations to form CB Commercial. Throughout the 1990s, CB Commercial moved aggressively to accelerate growth and cultivate global capabilities to meet client demands. The company acquired leading firms in investment management (Westmark Realty Advisors now CB Richard Ellis Investors, in 1995), mortgage banking (L.J. Melody & Company, in 1996) and property and corporate facilities management, as well as capital markets and investment management (Koll Real Estate Services, in 1997). In 1996, CB Commercial became a public company.

In 1998, the company, then known as CB Commercial Real Estate Services Group, achieved significant global expansion with the acquisition of REI Limited. REI Limited, which traces its roots to London in 1773, was the holding company for all Richard Ellis operations outside of the United Kingdom. Following the REI Limited acquisition, the company changed its name to CB Richard Ellis Services, Inc. and, later in 1998, acquired the London-based firm of Hillier Parker May & Rowden, one of the top property services firms operating in the United Kingdom. With these acquisitions, we believe we became the first real estate services firm with a platform to deliver integrated real estate services across the world's major business capitals through one commonly-owned, commonly-managed company.

CB Richard Ellis Group, Inc., which was initially known as Blum CB Holding Corp. and later as CBRE Holding, Inc., was formed by an affiliate of Blum Capital Partners, L.P. as a Delaware corporation on February 20, 2001 for the purpose of acquiring all of the outstanding stock

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of CB Richard Ellis Services in a going private transaction. This transaction, which involved members of our senior management team and affiliates of Blum Capital Partners and Freeman Spogli & Co., was completed in July 2001.

In July 2003, our global position was further solidified as CB Richard Ellis Services and Insignia Financial Group, Inc. were brought together to form a premier, worldwide, full-service real estate company. As a result of

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the Insignia acquisition, we now operate globally under the CB Richard Ellis brand name, which we believe is a well-recognized brand in virtually all of the world's key business centers. Lastly, in order to enhance our financing flexibility and to provide liquidity for some of our stockholders, in June 2004 we completed the initial public offering of our common stock.

## **Our Corporate Structure**

We are a holding company and conduct all of our operations through our indirect subsidiaries. Our directly-owned subsidiary CB Richard Ellis Services is also generally a holding company and is the primary obligor or issuer with respect to most of our long-term indebtedness, including our senior secured credit facilities, our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011.

In our Americas segment described below, substantially all of our advisory services and outsourcing services operations, other than mortgage loan origination and servicing, are conducted through our indirect wholly owned subsidiaries CB Richard Ellis Real Estate Services, Inc., which we acquired in connection with the Insignia acquisition and was formerly known as Insignia/ESG, Inc., and CB Richard Ellis Inc. Our mortgage loan origination and servicing operations are conducted exclusively through our indirect wholly owned subsidiary, L.J. Melody & Company, and its subsidiaries. Our investment management business in our Americas segment is conducted almost entirely through our indirect wholly owned subsidiary CB Richard Ellis Investors, L.L.C. Our operations in Canada are primarily conducted through our indirect wholly owned subsidiary CB Richard Ellis Limited.

Our operations outside the Americas segment, including both our Europe, Middle East and Africa, and Asia-Pacific segments described below, are conducted through a number of indirect wholly owned subsidiaries. The most significant of such subsidiaries in Europe, Middle East and Africa include CB Richard Ellis Ltd. and Insignia Richard Ellis Europe Limited (the United Kingdom), CB Richard Ellis SA and Insignia France SARL (France), CB Richard Ellis SA (Spain) and CB Richard Ellis, B.V. (the Netherlands). The most significant of such subsidiaries in Asia Pacific include CB Richard Ellis Pty Ltd. (Australia), CB Richard Ellis (Agency) Ltd. (New Zealand), CB Richard Ellis Ltd. (Hong Kong) and CB Richard Ellis Pte Ltd. (Singapore).

## **Industry Overview**

Our business covers all the various segments that compose the commercial real estate services industry, which includes leasing, sales, property management, facilities management, consulting, mortgage origination and servicing, valuation and appraisal services and investment management. Based upon our experience in these various segments and our management's ongoing, internally-generated assessment of the size of the addressable market within each such segment, we believe that the U.S. commercial real estate services industry, excluding investment management, generated approximately \$22 billion in revenues during 2003.

In addition, we review on a quarterly basis various internally-generated statistics and estimates regarding both office and industrial space within the U.S. commercial real estate services industry, including the total available stock of rentable space and the average rent per square foot of space. Our management believes that changes in the addressable commercial rental market represented by the product of available stock and rent per square foot provide a reliable estimate of changes in the overall commercial real estate services industry because nearly all segments within the industry are affected by changes in these two measurements. We estimate that the product of available stock and rent per square foot grew at a compound annual growth rate of approximately 4.8% from 1993 through 2003.

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During the next few years, we believe the key drivers of revenue growth for the largest commercial real estate services companies will be: (1) the continued outsourcing of commercial real estate services, (2) the consolidation of clients' activities with fewer providers and (3) the increasing institutional ownership of commercial real estate.

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### ***Outsourcing***

Motivated by reduced costs, lower overhead, improved execution across markets, increased operational efficiency and a desire to focus on their core competencies, property owners and occupiers have increasingly contracted out for commercial real estate services, including the following:

*Transaction management* oversight of purchase and sale of properties, execution of lease transactions, renewal of leases, expansions and relocation of offices and disposition of surplus space;

*Facilities management* oversight of all the operations associated with the functioning of occupied real estate, whether owned and leased, including engineering services, janitorial services, security services, landscaping and capital improvements and directing and monitoring of various subcontractors;

*Project management* oversight of the design and construction of interior space (as distinct from building design and construction), including assembling and coordinating contracting teams, and creating and managing budgets;

*Lease administration* analysis of all real estate leases of a client to ensure that it is in compliance with all terms and maintenance of reports on all lease data, including critical dates such as renewal options, expansion options and termination options, performance of required services and proper charging or payment for costs;

*Property management* oversight of the daily operation of a single property or portfolio of properties, including tenant service/relations and bidding, awarding and administering subcontracts for maintenance, landscaping, security, parking, capital and tenant improvements to implement the owner's specific property value enhancement objectives through maximization of cash flow; and

*Property accounting* performance of all of the accounting and financial reporting associated with a property or portfolio, including operating budget and expenses, rent collection and other accounts receivable, accounts payable, capital and tenant improvements and tenant lease administration.

According to an Ernst & Young study of major corporations published in the Fall of 2002, 57% of the subject corporations retained third-party service providers for transaction management services, 46% outsourced their lease administration functions and 37% outsourced their facilities management functions. We believe this represents an increase from historical outsourcing of these functions, and we expect this outsourcing trend to continue.

### ***Consolidation***

Despite recent consolidation, the commercial real estate services industry remains highly fragmented. Other than the limited number of national and international real estate services firms with whom we compete in a number of service competencies, most firms within the industry are local or regional firms that are substantially smaller than us on an overall basis, although in some cases have a larger local presence in certain competencies. We believe that major property owners and corporate users are motivated to consolidate their service provider relationships on a regional, national and global basis to obtain more consistent execution across markets, to achieve economies of scale and enhanced purchasing power and to benefit from streamlined management oversight and the efficiency of single point of contact service delivery. As a result, we believe large owners and occupiers are awarding a disproportionate share of this business to the larger real estate services providers, particularly those that provide a full suite of services across geographical boundaries.

*Institutional Ownership of Commercial Real Estate*

Institutional owners, such as real estate investment trusts, or REITs, pension funds, foreign institutions and other financial entities, increasingly are acquiring more real estate assets and financing them in the capital markets. Total U.S. real estate assets held by institutional owners increased to \$423 billion in 2003 from \$223



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billion in 1994. REITs were the main drivers of this growth, with a portfolio increase of more than 400% over this time period. Pension fund assets also grew by 48% and foreign institutions augmented their U.S. real estate investments by 77%. We believe it is likely that these owners will outsource management of their portfolios and consolidate their use of commercial real estate services vendors.

## **Our Regions of Operation and Principal Services**

We have organized our business into, and report our results of operations through, three geographically organized segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, and (3) Asia Pacific. Within our Americas segment, we organize our services into the following business areas in order to maximize synergies and cross-selling opportunities among our clients: (a) advisory services, (b) outsourcing services and (c) investment management services.

Information regarding revenue and operating income or loss, attributable to each of our segments, is included in Segment Operations within the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus and within note 21 to our audited consolidated financial statements included elsewhere in this prospectus. Information concerning the identifiable assets of each of our business segments is set forth in note 21 to our audited consolidated financial statements included elsewhere in this prospectus.

### ***The Americas***

The Americas is our largest segment of operations and provides a comprehensive range of services throughout the United States and in the largest metropolitan regions in Canada, Mexico and other selected parts of Latin America. Our Americas segment accounted for 73.3% of our revenue for the nine months ended September 30, 2004, 73.5% of our 2003 revenue, 76.6% of our 2002 revenue and 79.3% of our 2001 revenue.

### ***Advisory Services***

Corporations, institutions and other users of real estate services have been increasingly consolidating their relationships with fewer service providers that have depth of resources, full array of services and broad geographic reach. We believe our advisory services businesses have been at the vanguard of this trend, offering occupier/tenant and investor/owner services that meet the full spectrum of marketplace needs, including (1) real estate services, (2) mortgage loan origination and servicing and (3) valuation. Our advisory services business line accounted for 61.9% of our revenue for the nine months ended September 30, 2004, 59.7% of our 2003 revenue, 60.5% of our 2002 revenue and 61.3% of our 2001 revenue.

Within advisory services, our major service lines are the following:

***Real Estate Services.*** We provide strategic advice and execution assistance to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property. These businesses are built upon strong client relationships that frequently lead to recurring revenue opportunities over many years. Our real estate services professionals are particularly adept at aligning real estate strategies with client business objectives, serving as an advisor as well as transaction executor. During 2003, on a

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pro forma basis, we advised on nearly 23,000 lease transactions involving aggregate rents of approximately \$27.3 billion and more than 4,700 real estate sales transactions with an aggregate value of approximately \$27.6 billion. We believe we are a market leader for the provision of sales and leasing real estate services in many of the top U.S. metropolitan statistical areas (as defined by the U.S. Census Bureau), including New York, Philadelphia, Washington, D.C., Los Angeles, Atlanta, Chicago, Boston and Dallas.

Our advice and execution assistance professionals are compensated primarily through commission-based programs, which are payable upon completion of the assignment. Therefore, as compensation is our

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largest expense, this flexible cost structure permits us to mitigate the negative effect on our operating margins during difficult market conditions. Due to the low barriers to entry and significant competition for quality employees, we strive to retain top professionals through an attractive compensation program tied to productivity.

We further strengthen our relationships with our real estate services clients by offering proprietary research to clients through our Torto Wheaton Research unit, a leading provider of commercial real estate market information, forecasting and consulting services. Torto Wheaton Research provides data and analysis to its clients in various formats, including TWR Outlook reports for office, industrial, hotel, retail and multi-housing sectors covering 56 U.S. metropolitan areas and TWR Select office and industrial database coverage of over 210,000 commercial properties.

***Mortgage Loan Origination and Servicing.*** Our wholly owned subsidiary, L.J. Melody & Company, originates and services commercial mortgage loans primarily through relationships established with investment banking firms, national banks, credit companies, insurance companies, pension funds and government agencies. During 2003, L.J. Melody originated \$11.0 billion in mortgage loans and, through a joint venture with GE Capital Real Estate, serviced approximately \$61.0 billion in mortgage loans, \$23.2 billion of which relates to servicing rights of L.J. Melody. Also during 2003, approximately \$1.4 billion in loans were originated for federal government sponsored entities using a revolving credit line dedicated exclusively for this purpose. These loan originations generally occur without principal risk because L.J. Melody obtains a legally binding purchase commitment from the government sponsored entity before it actually originates the loan.

***Valuation.*** We provide valuation services that include market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions. Our valuation business has developed proprietary technology for preparing and delivering valuation reports to its clients, which we believe provides it with a competitive advantage over its rivals. We believe that our valuation business is one of the largest in our industry. During 2003, on a pro forma basis, we completed over 11,500 valuation, appraisal and advisory assignments.

### *Outsourcing Services*

Outsourcing is a long-term trend in commercial real estate, with corporations, institutions and others seeking to achieve improved efficiency, better execution and lower costs by relying on the expertise of third-party real estate specialists. Our outsourcing services business includes two business lines that seek to capitalize on this trend: (1) asset services and (2) corporate services. Although our management agreements with our outsourcing clients generally may be terminated on relatively short notice ranging between 30 days to a year, we have developed long-term relationships with many of these clients and we continue to work closely with them to implement their specific goals and objectives and to preserve and expand upon these relationships. As of December 31, 2003, we managed approximately 422.8 million square feet of commercial space for property owners and occupiers, which we believe represents one of the largest portfolios in the Americas. Our outsourcing services business line accounted for 9.5% of our revenue for the nine months ended September 30, 2004, 11.2% of our 2003 revenue, 13.1% of our 2002 revenue and 14.7% of our 2001 revenue.

***Asset Services.*** We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors. We believe our contractual relationships with these clients put us in an advantageous position to provide other services for them, including refinancing, disposition and appraisal.

***Corporate Services.*** We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios. Corporate facilities under management in the Americas region include headquarters buildings,



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regional offices, administrative offices and manufacturing and distribution facilities. Corporate services clients are typically companies or public sector institutions with large, distributed real estate portfolios. We enter into long-term, contractual relationships with these organizations with the goal of ensuring that our clients' real estate strategies support their overall business strategies.

### *Investment Management Services*

Our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., provides investment management services to clients that include pension plans, investment funds, insurance companies and other organizations seeking to generate returns and diversification through investment in real estate and sponsors funds and investment programs that span the risk/return spectrum. In higher yield strategies, CBRE Investors co-invests with its clients/partners. Our investment management services business line accounted for 1.9% of our revenue for the nine months ended September 30, 2004, 2.6% of our 2003 revenue, 3.0% of our 2002 revenue and 3.3% of our 2001 revenue.

CBRE Investors is organized into three general client-focused groups according to investment strategy, which include managed accounts group (low risk), strategic partners (value added funds) and special situations (higher yield and highly focused strategies). Operationally, a dedicated investment team with the requisite skill sets executes each investment strategy, with the team's compensation being driven largely by the investment performance of its particular strategy/fund. This organizational structure is designed to align the interests of team members with those of the firm and its investor clients/partners and to enhance accountability and performance. Dedicated teams share resources such as accounting, financial controls, information technology, investor services and research. In addition to the research provided by our advisory services group, which focuses primarily on market conditions and forecasts, CBRE Investors has an in-house team of research professionals who focus on investment strategy and underwriting.

CBRE Investors closed over \$1.2 billion of new acquisitions in the Americas in each of 2002 and 2003, and it has increased its assets under management in the Americas from \$3.5 billion in 1998 to \$5.7 billion in 2003, representing a 10.2% compound annual growth rate.

### *Europe, Middle East and Africa*

As of December 31, 2003, our EMEA segment had offices in 28 countries, with its largest operations located in the United Kingdom, France, Spain, the Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services similar to our Americas segment. Our EMEA segment accounted for 19.8% of our revenue for the nine months ended September 30, 2004, 19.2% of our 2003 revenue, 15.6% of our 2002 revenue and 13.8% of our 2001 revenue.

We are one of the leading commercial real estate services companies in the United Kingdom. We hold the leading market position in London in terms of 2003 leased square footage and provide a broad range of commercial property real estate services to investment, commercial and corporate clients located in London. We also have eight regional offices in Birmingham, Bristol, Jersey, Leeds, Liverpool, Manchester, Edinburgh and Glasgow. In France, we believe we are a market leader in Paris and we provide a complete range of services to the commercial property sector, as well as some services to the residential property market. In Spain, we provide expansive coverage operating through our offices in Madrid, Barcelona, Valencia, Malaga, Marbella and Palma de Mallorca. Our business in the Netherlands is based in Amsterdam, while our German operations are located in Frankfurt, Munich, Berlin and Hamburg. Our operations in these countries generally provide a full range of services to the commercial property sector, along with some residential property services.

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We also have affiliated offices that provide commercial real estate services under our brand name in the Middle East and Africa, including the countries of Bostwana, Israel, Kenya, South Africa, Uganda and

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Zimbabwe. Our agreements with these independent offices include licenses to use the CB Richard Ellis name in the relevant territory in return for payments to us of annual royalty fees. In addition, these agreements also include business cross-referral arrangements between us and the affiliates. We do not have any ownership interests with respect to these affiliated offices.

### *Asia Pacific*

As of December 31, 2003, our Asia Pacific segment had offices in 11 countries. We believe that we are one of only a few companies that can provide a full range of real estate services to large corporations throughout the region, including the similar broad range of services provided by our Americas and EMEA segments. Our principal operations in Asia are located in China (including Hong Kong), Singapore, South Korea and Japan. In addition, we have agreements with affiliated offices in India, the Philippines, Thailand and other countries within the region that include licensing, royalty and cross-referral arrangements on terms similar to those with our affiliated offices in our EMEA segment, as described above. The Pacific region includes Australia and New Zealand, with principal offices located in Brisbane, Melbourne, Sydney, Perth, Auckland and Wellington. The Asia Pacific segment accounted for 6.9% of our revenue for the nine months ended September 30, 2004, 7.3% of our 2003 revenue, 7.8% of our 2002 revenue and 6.9% of our 2001 revenue.

### **Our Competitive Position**

We believe we possess several competitive strengths that position us to capitalize on the positive outsourcing, consolidation and globalization trends in the commercial real estate services industry. Our strengths include the following:

***Global Brand and Market Leading Positions.*** For nearly a century, we and our predecessors have built the CB Richard Ellis brand into the largest commercial real estate services provider in the world, based on 2003 revenue, and one of only two commercial real estate services companies with a global brand. As a result of our global brand recognition and geographic reach, large corporations, institutional owners and users of real estate recognize us as a leading provider of world-class, comprehensive real estate services. Operating under the global CB Richard Ellis brand name, we are a leader in many of the local markets in which we operate, including New York, Los Angeles, Chicago, London and Paris.

***Full Service Capabilities.*** We provide a full range of commercial real estate services to meet the needs of our clients, and we believe this suite of services represents a broader range globally than those of many of our competitors. When combined with our extensive global reach and localized knowledge, this full range of real estate services enables us to provide world-class service to our multi-regional and multi-national clients, as well as to maximize our revenue per client.

***Strong Client Relationships and Client-tailored Service.*** We have forged long-term relationships with many of our clients. Our clients include more than 60% of the Fortune 100, with nearly half of these clients purchasing more than one service from us. In order to better satisfy the needs of our largest clients and to capture cross-selling opportunities, we have organized fully integrated client coverage teams comprised of senior management, a global relationship manager and regional and product specialists. We believe that this client-tailored approach contributed significantly to our 38.6% increase in revenues from the 50 largest clients of our U.S. investment sales group within our real estate services line of business during the period from 1999 to 2003.

***Attractive Business Model.*** Our business model features a diversified client base, recurring revenue streams, a variable cost structure, low capital requirements and strong cash flow generation.

***Diversified Client Base.*** Our global operations, multiple service lines and extensive client relationships provide us with a diversified revenue base. For 2003, on a pro forma basis, we estimate that corporations accounted for approximately 25% of our global revenues, insurance companies and banks accounted for approximately 23% of our revenue, pension funds and their advisors



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accounted for approximately 14% of our revenue, individuals and partnerships accounted for approximately 11% of our revenue, REITs accounted for approximately 10% of our revenue and other types of clients accounted for the remainder of our revenues.

***Recurring Revenue Streams.*** Our years of strong local market presence have allowed us to develop significant repeat client relationships, which along with the turnover of leases and properties for which we have previously acted as transaction manager we estimate accounted for approximately 65% of our 2003 revenue. This includes our contractual, annual fee-for-services businesses, which generally involve facilities management, property management, mortgage loan servicing provided by L.J. Melody & Company and asset management provided by CBRE Investors. Our contractual, fee-for-service business represented 12.7% of our 2003 revenue.

***Variable Cost Structure.*** Compensation is our largest expense, and our sales and leasing professionals are generally paid on a commission and bonus basis, which correlates with our revenue performance. This flexible cost structure mitigates the negative effect on our operating margins during difficult market conditions. However, our cost structure also includes significant other operating expenses that may not correlate to our revenue performance, including office lease and information technology maintenance expenses along with insurance premiums.

***Low Capital Requirements.*** Our business model is structured to provide value-added services with low capital intensity. During 2003, our net capital expenditures were 1.7% of our revenue.

***Strong Cash Flow Generation.*** Our strong brand name, full-service capabilities, and global presence enable us to generate significant revenues which, when combined with our flexible cost structure and low capital requirements, have allowed us historically to generate significant cash flow in a variety of economic conditions.

***Strong Management Team and Workforce.*** Our most important asset is our people. We have recruited a talented and motivated workforce of over 13,500 employees worldwide, excluding affiliate and partner offices, who are supported by a strong and deep senior management team consisting of a number of highly-respected executives, most of whom have over 20 years of broad experience in the real estate industry. In addition, we use equity compensation to align the interests of our senior management team with the interests of our stockholders. Our executive officers beneficially owned approximately 3.8% of our common stock as of October 31, 2004.

Although we believe these strengths will create significant opportunities for our business, you should also be aware of the risks that may impact our competitive position, which include the following:

***Significant Leverage.*** We are highly leveraged and have debt service obligations. For the year ended December 31, 2003, on a pro forma basis, our interest expense was \$83.5 million. For the nine months ended September 30, 2004, our interest expense was \$52.1 million. In addition, the instruments governing our indebtedness impose operating and financial restrictions on the conduct of our business.

***Geographic Concentration.*** During 2003, approximately 23.8% of our revenue was generated from transactions originating in California and approximately 6.9% of our revenue was generated from transactions originating in the greater New York metropolitan area. In addition, a significant portion of our European operations is concentrated in London and Paris. As a result, future adverse economic effects in these regions may affect us more than our competitors.

***Exposure to Risks of International Operations.*** We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2003 and the nine months ended September 30, 2004, we generated approximately 30.2% of our revenue from operations outside the United States. Because a significant portion of our revenues are derived from operations outside the United States, we are exposed to adverse changes in exchange rates and social, political and economic risks of doing business in foreign countries.



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***Smaller Presence in Some Markets than our Local Competitors.*** Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across service categories and geographic areas. Depending on the service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis.

## **Our Growth Strategy**

We believe we have built the premier integrated global services platform in our industry. In developing this integrated global platform, we acquired such entities as The Koll Company, Westmark Realty Advisors, L.J. Melody, Richard Ellis International and Hillier Parker May & Rowden during the 1990s and, in 2003, we acquired Insignia. Today, we believe we offer the commercial real estate services industry's most complete suite of service offerings and that we have a leadership position in many of the top business centers around the world. Our primary business objective is to leverage this platform in order to garner an increasing share of industry revenues relative to our competitors. We believe this will enable us to maximize and sustain our long-term cash flow and increase long-term stockholder value. Our strategy to achieve these business objectives consists of several elements:

***Increase Revenue from Large Clients.*** We plan to capitalize on our client management strategy for our large clients, which is designed to provide them with a full range of services globally while maximizing our revenue per client. We deliver these services through relationship management teams that are charged with thoroughly understanding our customer's business and real estate strategies and matching our services to the customer's requirements. The global relationship manager is a highly seasoned professional who is focused on maximizing revenue per client and compensated with a salary and a performance-based bonus and is supported by salaried professionals with specialized expertise, such as marketing, financial analysis and construction. The team leader also taps into our field-level transaction professionals, as necessary, for execution of client strategies. We believe this approach to client management will lead to stronger client relationships and enable us to maximize cross-selling opportunities and capture a larger share of our clients' commercial real estate services expenditures. For example:

we generated repeat business in 2003 from approximately 60% of our U.S. real estate sales and leasing clients;

more than 40% of our corporate services clients today purchase more than one service and, in many cases, more than two;

the square footage we manage for our 15 largest asset services clients has grown by 55% in three years; and

the 50 largest clients of the investment sales group within our real estate services line of business generated \$52.6 million in revenues in 2003 up 38.6% from \$37.9 million for these same 50 clients four years earlier.

***Capitalize on Cross-selling Opportunities.*** Because we believe cross-selling represents a large growth opportunity within the commercial real estate services industry, we are committed to emphasizing this opportunity across all of our clients, services and regions. We have dedicated substantial resources and implemented several management initiatives to better enable our workforce to capitalize on these opportunities among our various lines of business, including our CBRE University outside Chicago that provides intensive training for sales and management professionals, a customer relationship management database and sales management principles and incentives designed to improve individual productivity. We believe the combination of these initiatives will enable us to further penetrate local markets and better capitalize on our worldwide platform.

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***Continue to Grow our Investment Management Business.*** Our growing investment management business provides us with an attractive revenue source through fees on assets under management and gains on the sales of assets. We also expect to achieve strong growth in this business by continuing to harness the vast resources of the entire CB Richard Ellis organization for the benefit of our investment management clients. CBRE Investors' independent structure creates an alignment of interests with its investors, while permitting its portfolio companies to use the broad range of services provided by our other business lines. As a result, we historically have received significant revenue from the provision of services on an arm's length basis to these portfolio companies, and we believe this will continue in the future.

***Focus on Best Practices to Improve Operating Efficiency.*** In 2001, we launched a best practices initiative, branded People, Platform & Performance, and we believe the process and operational improvements associated with this initiative contributed to operating cost reductions. We believe our focus on best practices has enabled us to generate industry-leading operating margins. We remain keenly focused on this strategic initiative and continue to strive for efficiency improvements and cost savings in order to maximize our operating margins and cash flow.

## **Competition**

We compete across a variety of business disciplines within the commercial real estate services industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage banking. Each of the business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other commercial real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours, including Cushman & Wakefield, Grubb & Ellis, Jones Lang LaSalle and Trammell Crow.

Different factors weigh heavily in the competition for clients. In advisory services, key differentiating factors include quality service, resource depth, demonstrated track record, analytical skills, market knowledge, strategic thinking and creative problem-solving. These factors are also vital in outsourcing services, and are supplemented by consistency of execution across markets, economies of scale, enhanced efficiency and cost reduction strategies. In investment management the ability to enhance asset value and produce solid, consistent returns on invested capital are keys to success.

## **Seasonality**

A significant portion of our revenue is seasonal. Historically, this seasonality has caused our revenue, operating income, net income and cash flow from operating activities to be lower in the first two calendar quarters and higher in the third and fourth calendar quarters of each year. The concentration of earnings and cash flow in the fourth quarter is due to an industry-wide focus on completing transactions by year-end.

## **Employees**

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As of December 31, 2003, we had more than 13,500 employees worldwide, excluding affiliate and partner offices. As of December 31, 2003, approximately 245 of our employees were subject to collective bargaining agreements, the substantial majority of whom are employees in our asset services business in the New York/New Jersey area. We believe that our relations with our employees are satisfactory.

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### **Intellectual Property**

We hold various trademarks and trade names worldwide, which include the CB Richard Ellis name. Although we believe our intellectual property plays a role in maintaining our competitive position in a number of the markets that we serve, we do not believe we would be materially adversely affected by expiration or termination of our trademarks or trade names or the loss of any of our other intellectual property rights other than the CB Richard Ellis name and the L.J. Melody name. With respect to the CB Richard Ellis and L.J. Melody names, we have processed and continuously maintain trademark registrations for these trade names in the United States and, solely with respect to the CB Richard Ellis name, in most foreign jurisdictions where we conduct significant business. We obtained our most recent U.S. trademark registrations for the CB Richard Ellis name and related trade names in 2001, and these registrations would expire in 2007 if we failed to renew them. We obtained our most recent U.S. trademark registration for the L.J. Melody name in 1997, and this registration would expire in 2007 if we failed to renew it.

In addition to trade names, we have developed proprietary technology for preparing and developing valuation reports to our clients through our valuation business and we offer proprietary research to clients through our Torto Wheaton research unit. We also offer proprietary investment structures through CB Richard Ellis Investors. While we seek to secure our rights under applicable intellectual property protection laws in these and any other proprietary assets that we use in our business, we do not believe any of these other items of intellectual property are material to our business.

### **Environmental Matters**

Federal, state and local laws and regulations impose environmental controls, disclosure rules and zoning restrictions that impact the management, development, use, or sale of commercial real estate. We are not aware of any material noncompliance with the environmental laws or regulations currently applicable to us, and we are not the subject of any material claim for liability with respect to contamination at any location. However, these laws and regulations may discourage sales and leasing activities and mortgage lending with respect to some properties, which may adversely affect both us and the commercial real estate services industry in general. In addition, if we fail to disclose environmental issues in connection with a real estate transaction, we may become liable to a buyer or lessee of property. Environmental contamination or other environmental liabilities may also negatively affect the value of commercial real estate assets held by entities that are managed by our investment management business, which could adversely impact the result of operations of that business line.

Applicable laws and contractual obligations to property owners could also subject us to environmental liabilities through our provision of management services. Environmental laws and regulations impose liability on current or previous real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. As a result, we may be held liable as an operator for such costs in our role as an on-site property manager. This liability may result even if the original actions were legal and we had no knowledge of, or were not responsible for, the presence of the hazardous or toxic substances. Similarly, environmental laws and regulations impose liability for the investigation or cleanup of off-site locations upon parties that disposed or arranged for disposal of hazardous wastes at such locations. As a result, we may be held liable for such costs at landfills or other hazardous waste sites where wastes from our managed properties were sent for disposal. Under certain environmental laws, we could also be held responsible for the entire amount of the liability if other responsible parties are unable to pay. We may also be liable under common law to third parties for property damages and personal injuries resulting from environmental contamination at our sites, including the presence of asbestos-containing materials. Insurance coverage for such matters may be unavailable or inadequate to cover our liabilities. Additionally, liabilities incurred to comply with more stringent future environmental requirements could adversely affect any or all of our lines of business.

**Table of Contents****Facilities**

We occupied the following offices as of December 31, 2003:

<b>Location</b>	<b>Sales Offices</b>	<b>Corporate Offices</b>	<b>Total</b>
The Americas	139	2	141
Europe, Middle East and Africa	52	1	53
Asia Pacific	25	1	26
<b>Total</b>	<b>216</b>	<b>4</b>	<b>220</b>

In general, these leased offices are fully utilized. The most significant terms of the leasing arrangements for our offices are the term of the lease and the rent. Our leases have terms varying in duration. The rent payable under our office leases varies significantly from location to location as a result of differences in prevailing commercial real estate rates in different geographic locations. Our management believes that no single office lease is material to our business, results of operations or financial condition. In addition, we believe there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our profits in those markets when we enter into new leases.

We do not own any offices, which is consistent with our strategy to lease instead of own.

**Legal Proceedings**

We are party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any liability imposed on us that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

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The following table sets forth information about our executive officers and directors as of October 31, 2004:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Ray Wirta	60	Chief Executive Officer and Director
Brett White	44	President and Director
Kenneth J. Kay	49	Chief Financial Officer
Alan C. Froggatt	55	President, EMEA
Robert Blain	49	President, Asia Pacific
Richard C. Blum	69	Chairman of the Board of Directors
Jeffrey A. Cozad	40	Director
Patrice Marie Daniels	44	Director
Bradford M. Freeman	62	Director
Michael Kantor	65	Director
Frederic V. Malek	67	Director
Jeffrey S. Pion	43	Director
Gary L. Wilson	64	Director

*Ray Wirta.* Mr. Wirta has been Chief Executive Officer of CB Richard Ellis Group since July 2001 and a director of CB Richard Ellis Group since September 2001. He has been Chief Executive Officer of CB Richard Ellis Services since May 1999. He served as its Chief Operating Officer from May 1998 to May 1999. Mr. Wirta holds a B.A. from California State University, Long Beach and an M.B.A. in International Management from Golden Gate University.

*Brett White.* Mr. White has been President and a director of CB Richard Ellis Group since September 2001. He was Chairman of the Americas of CB Richard Ellis Services from May 1999 to September 2001 and was its President of Brokerage Services from August 1997 to May 1999. Previously, he was its Executive Vice President from March 1994 to July 1997 and Managing Officer of its Newport Beach, California office from May 1993 to March 1994. Mr. White is a member of the board of directors of Mossimo, Inc. Mr. White received his B.A. from the University of California, Santa Barbara.

*Kenneth J. Kay.* Mr. Kay has been Chief Financial Officer of CB Richard Ellis Group since July 2002. He previously served as Vice President and Chief Financial Officer of Dole Food Company, Inc. from December 1999 to June 2002. Mr. Kay served as Executive Vice President and Chief Financial Officer for the consumer products group of Universal Studios, Inc. from December 1997 to December 1999. Mr. Kay is a certified public accountant in the State of California and holds a B.A. and an M.B.A. from the University of Southern California.

*Alan C. Froggatt.* Mr. Froggatt has been President of CB Richard Ellis Ltd. EMEA since July 2003, when CB Richard Ellis Group acquired Insignia. He previously served as Chief Executive Officer of Insignia's European Operations and as Chief Executive of Richard Ellis Group Limited from the date it was acquired by Insignia in February 1998. Mr. Froggatt holds a B.S. from the College of Estate Management, University of Reading.



*Robert Blain.* Mr. Blain has been President of CB Richard Ellis Asia Pacific since February 2002. Prior to such time, he was employed by Colliers International Property Consultants, Inc., and served as a Regional Investment Director from 1995 to 1998, its Australia Director from 1999 to 2000 and as its Chief Executive South Wales from 2000 to February 2002. Mr. Blain holds a diploma in Land Economy from the Real Estate Institute of New South Wales.

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*Richard C. Blum.* Mr. Blum has been Chairman of the Board of Directors of CB Richard Ellis Group since September 2001 and a director of CB Richard Ellis Group since July 2001. He is the Chairman and President of Richard C. Blum & Associates, Inc., the general partner of Blum Capital Partners, L.P., a long-term strategic equity investment management firm that acts as general partner for various investment partnerships and provides investment advisory services, which he founded in 1975. Mr. Blum is a member of the boards of directors of Northwest Airlines Corporation and Glenborough Realty Trust Incorporated and is Vice Chairman of the Board of URS Corporation. Mr. Blum also serves as co-chairman of Newbridge Capital, LLC, an investment management firm that invests in Asia and Latin America. Mr. Blum holds a B.A. and an M.B.A. from the University of California, Berkeley.

*Jeffrey A. Cozad.* Mr. Cozad has been a director of CB Richard Ellis Group since September 2001. Mr. Cozad has been a partner of Blum Capital Partners, L.P. since 2000. Prior to joining Blum Capital Partners, Mr. Cozad was a managing director of Security Capital Group Incorporated, a global real estate research, investment and operating management company from 1991 to 2000. Mr. Cozad holds a B.A. from DePauw University and an M.B.A. from the University of Chicago Graduate School of Business.

*Patrice Marie Daniels.* Ms. Daniels has been a director of CB Richard Ellis Group since February 2004. Ms. Daniels is a founding partner of Onyx Capital Ventures, L.P., a private equity investment firm, which was founded in October 2001. She previously served as Managing Director, Corporate and Leveraged Finance for CIBC World Markets, an investment banking firm, from March 1997 to October 2001. Ms. Daniels holds a B.S. from the University of California, Berkeley and an M.B.A. from the University of Chicago Graduate School of Business.

*Bradford M. Freeman.* Mr. Freeman has been a director of CB Richard Ellis Group since July 2001. Mr. Freeman is a founding partner of Freeman Spogli & Co. Incorporated, a private investment company founded in 1983. Mr. Freeman is also a member of the board of directors of Edison International. Mr. Freeman holds a B.A. from Stanford University and an M.B.A. from Harvard Business School.

*Michael Kantor.* Mr. Kantor has been a director of CB Richard Ellis Group since February 2004. Mr. Kantor has been a partner with the law firm of Mayer, Brown, Rowe & Maw LLP since March 1997. From 1993 to 1996, he served as the U.S. Trade Representative and from 1996 to 1997 as U.S. Secretary of Commerce. Mr. Kantor holds a B.A. from Vanderbilt University and a J.D. from Georgetown University.

*Frederic V. Malek.* Mr. Malek has been a director of CB Richard Ellis Group since September 2001. He has served as Chairman of Thayer Capital Partners, a merchant banking firm he founded, since 1993. He also serves on the boards of directors of Automatic Data Processing Corp., Federal National Mortgage Association, FPL Group, Inc., Manor Care, Inc. and Northwest Airlines Corporation. Mr. Malek recently retired as director of American Management Systems, Inc., effective March 31, 2004. Mr. Malek holds a B.S. degree from the United States Military Academy at West Point and an M.B.A. from Harvard Business School.

*Jeffrey S. Pion.* Mr. Pion has been a director of CB Richard Ellis Group since October 2003. Mr. Pion has been an Executive Vice President of CB Richard Ellis Group since January 2003. For the last 18 years, Mr. Pion has been a broker at our subsidiary CB Richard Ellis, Inc., focusing on the sale and leasing of office and commercial properties. Prior to joining CB Richard Ellis, Inc., Mr. Pion worked at Central Real Estate Corp., a real estate development and investment company based in Los Angeles. Mr. Pion holds a B.A. degree from the University of California, Santa Barbara.

*Gary L. Wilson.* Mr. Wilson has been a director of CB Richard Ellis Group since September 2001. He previously served as a director of our company from 1989 to July 2001. Since April 1997, Mr. Wilson has been Chairman of Northwest Airlines Corporation, for which he served as Co-Chairman from January 1991 to April 1997. Mr. Wilson also serves on the boards of directors of The Walt Disney Company, On Command



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Corporation, Veritas Holdings GmbH and Yahoo! Inc. Mr. Wilson holds a B.A. from Duke University and an M.B.A. from the Wharton Graduate School of Business and Commerce at the University of Pennsylvania.

Each executive officer serves at the discretion of our board of directors and holds office until his successor is elected and qualified or until his earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

## **Board Structure**

Our board of directors currently consists of ten directors. Our board of directors has determined that each of Ms. Daniels and Messrs. Blum, Cozad, Freeman, Kantor, Malek and Wilson is independent, as defined under and required by the federal securities laws and the rules of the New York Stock Exchange.

All of our directors stand for election at each annual meeting of our stockholders.

As described in greater detail under the heading titled *Related Party Transactions Securityholders Agreement*, pursuant to a securityholders agreement, our stockholders affiliated with Blum Capital Partners, L.P. are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Accordingly, these affiliates of Blum Capital Partners have nominated Messrs. Blum and Cozad to our board of directors. In addition to Messrs. Blum and Cozad, assuming our board of directors continues to consist of ten directors in the future, these affiliates will be entitled to nominate one additional director in future board elections based upon their percentage ownership of our common stock immediately after completion of the offering. Also pursuant to the securityholders agreement, our stockholders affiliated with Freeman Spogli & Co. Incorporated are entitled to nominate one of our directors, and they have nominated Mr. Freeman. After completion of the offering, our stockholders affiliated with Freeman Spogli & Co. Incorporated will no longer be entitled to nominate a director pursuant to the securityholders agreement.

## **Committees of the Board**

The standing committees of our board of directors currently consist of an audit committee, a corporate governance and nominating committee, a compensation committee and an executive committee.

### *Audit Committee*

The principal duties of our audit committee are as follows:

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to retain, compensate, oversee and terminate any registered public accounting firm in connection with the preparation or issuance of an audit report, and to approve all audit services and any permissible non-audit services provided by the independent auditors;

to receive the direct reports from any registered public accounting firm engaged to prepare or issue an audit report;

to review and discuss annual audited and quarterly unaudited financial statements with management and the independent auditors;

to review with the independent auditor any audit problems and management's response;

to discuss earnings releases, financial information and earnings guidance provided to analysts and rating agencies;

to periodically meet separately with management, internal auditors and the independent auditors;

to establish procedures to receive, retain and treat complaints regarding accounting, internal accounting controls or auditing matters;

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to obtain and review, at least annually, an independent auditors report describing the independent auditors internal quality-control procedures and any material issues raised by the most recent internal quality-control review of the independent auditors or any inquiry by governmental authorities;

to set hiring policies for employees or former employees of the independent auditors;

to retain independent counselor and other outside advisors, including experts in the area of accounting, as it determines necessary to carry out its duties; and

to report regularly to our full board of directors with respect to any issues raised by the foregoing.

Our audit committee is composed of Ms. Daniels and Messrs. Malek and Wilson, and our board of directors has determined that each of the members of our audit committee is independent, as defined under and required by the federal securities laws and the rules of the New York Stock Exchange, or NYSE, including Rule 10A-3(b)(i) under the Securities Exchange Act of 1934.

Our board of directors has determined that Ms. Daniels qualifies as an audit committee financial expert, as this term has been defined by the SEC in Item 401(h)(2) of Regulation S-K. Our board of directors determined that Ms. Daniels acquired the required attributes for such designation as a result of the following relevant experience, which forms of experience are not listed in any order of importance and were not assigned any relative weights or values by our board of directors in making such determination:

Ms. Daniels received a B.S. degree in Business Administration at the University of California, Berkeley and an M.B.A. degree in Finance at the University of Chicago Graduate School of Business.

Ms. Daniels served in several capacities, including as a Managing Director, with Bankers Trust from July 1987 to March 1997, which included arranging private and public senior and subordinated debt financing and equity capital for leveraged buyout transactions and for restructuring or acquisitions for non-investment grade companies.

Ms. Daniels served as a Managing Director with CIBC World Markets from March 1997 to October 2001, which included providing investment and commercial banking products to non-investment grade companies and leveraged buyout firms.

Ms. Daniels is a founding partner of Onyx Capital Ventures, L.P., a private equity investment firm, which was founded in October 2001.

Ms. Daniels served on the audit committee of the board of directors of World Color Press, Inc., a diversified commercial printing company that was publicly traded on the NYSE until it was acquired by Quebec or Printing Inc. in 1999, from January 1998 to October 1999.

Our board of directors has adopted a written charter for the audit committee, which is available on our website.

## ***Corporate Governance and Nominating Committee***

The principal duties of the corporate governance and nominating committee are as follows:

subject to the provisions of the securityholders agreement described in further detail under the heading titled Related Party Transactions Securityholders Agreement, to recommend to our board of directors proposed nominees for election to the board of directors by the stockholders at annual meetings, including an annual review as to the renominations of incumbents and proposed nominees for election by the board of directors to fill vacancies that occur between stockholder meetings; and

to make recommendations to the board of directors regarding corporate governance matters and practices.

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Our corporate governance and nominating committee is composed of Messrs. Blum, Malek and Kantor, and our board of directors has determined that each of the members of our corporate governance and nominating committee is independent, as defined under and required by the federal securities laws and the rules of the NYSE.

Our board of directors has adopted a written charter for the corporate governance and nominating committee, which is available on our website.

### ***Compensation Committee***

The principal duties of the compensation committee are as follows:

to review key employee compensation policies, plans and programs;

to review and approve the compensation of our chief executive officer and the other executive officers of the company and its subsidiaries;

to review and approve any employment contracts or similar arrangement between the company and any executive officer of the company;

to review and consult with our chief executive officer concerning selection of officers, management succession planning, performance of individual executives and related matters; and

to administer our stock plans, incentive compensation plans and any such plans that the board may from time to time adopt and to exercise all the powers, duties and responsibilities of the board of directors with respect to such plans.

Our compensation committee currently is composed of Messrs. Malek, Freeman and Cozad, and our board of directors has determined that each of the members of our compensation committee is independent, as defined under and required by the federal securities laws and the rules of the NYSE.

Our board of directors has adopted a written charter for the compensation committee, which is available on our website.

### ***Executive Committee***

Our board of directors has delegated to the executive committee the authority to act for the board on most matters during intervals between board meetings, except with respect to issuances of stock, declarations of dividends and other matters that, under Delaware law, may not be delegated to a committee of the board of directors. The principal duties of the executive committee are as follows:



to develop and implement our Company's policies, plans and strategies; and

to approve, modify or reject certain acquisitions or investments.

The executive committee currently is composed of Messrs. Wirta, White and Blum.

#### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended December 31, 2003, the members of our compensation committee were Frederic V. Malek and Bradford Freeman. Neither Mr. Malek nor Mr. Freeman has ever been an officer or employee of our company or any of our subsidiaries. During 2003, none of our executive officers served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on our compensation committee or board of directors. Additional information concerning transactions between us and the members of our compensation committee or entities affiliated with such members is described under the heading titled "Related Party Transactions."

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### **Codes of Conduct and Ethics and Corporate Governance Guidelines**

Our board of directors has adopted (1) a code of business conduct and ethics applicable to our directors, officers and employees, (2) a code of ethics applicable to our chief executive officer, chief financial officer and global controller and (3) corporate governance guidelines, each in accordance with applicable rules and regulations of the SEC and the NYSE. Each of these codes of ethics and conduct and the corporate governance guidelines is available on our website.

### **Compensation of Directors**

On November 5, 2003, we granted Gary Wilson options to acquire 27,714 shares of our Class A common stock for \$5.77 per share in connection with his agreement to serve on the audit committee of our board of directors. On February 9, 2004, we granted Michael Kantor options to acquire 13,857 shares of our Class A common stock for \$5.77 per share in connection with his agreement to serve on our board of directors. The options of Messrs. Wilson and Kantor were granted pursuant to our 2001 stock incentive plan, vest 20% per anniversary of their respective grant dates and expire on the earlier of the tenth anniversary of the grant date or the one-year anniversary after such director ceases to be a member of our board of directors.

In addition, our director compensation policy provides for the following annual compensation for each of our non-employee directors:

a \$20,000 annual cash retainer;

a grant of a number of unrestricted shares of our common stock with a fair market value equal to \$10,000 on the date of grant;

a stock option grant for a number of shares equal to \$50,000 divided by the fair market value of our common stock on the date of grant; and

a restricted stock grant for a number of shares equal to \$25,000 divided by the fair market value of our common stock on the date of grant.

Pursuant to this policy, our directors also receive an additional payment of \$1,000 per meeting attended and \$1,000 per committee meeting attended that was not scheduled in conjunction with a meeting of our board of directors. The chairman of the audit committee receives an additional annual cash retainer of \$10,000, and the chairmen of all other committees receive additional annual cash retainers of \$5,000 each. The annual cash retainer, the additional payments per meeting attended and the additional annual cash retainers for committee chairmanships became effective under this policy as of March 11, 2004.

With respect to the equity compensation components of our director compensation policy, on June 10, 2004, automatic grants of stock options and unrestricted and restricted stock, as described above, were made to our current outside directors pursuant to our 2004 stock incentive plan, the terms of which are described below. These grants were pro-rated to cover only the period from the date the registration statement for our initial public offering was declared effective by the SEC to the following May 15, the end date of the annual pro-ration cycle as determined by the 2004 stock incentive plan.

We also reimburse our non-employee directors for all out-of-pocket expenses incurred in the performance of their duties as directors. Our employee directors do not receive any fees for attendance at meetings or for their service on our board of directors.

**Table of Contents****Compensation of Executive Officers****Summary Compensation Table**

The following table sets forth information concerning the compensation of our chief executive officer and our other executive officers for the three years ended December 31, 2003:

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary	Bonus (1)	Other Annual Compensation (2)(3)	Restricted Stock Awards (2)(4)	Securities Underlying Stock Options	All Other Compensation (5)
Ray Wirta	2003	\$ 573,129	\$ 521,310	\$ 28,560		232,794	\$
Chief Executive Officer	2002	518,511		27,359			
	2001	518,510		8,092		488,184	489,375
Brett White	2003	506,156	355,481	15,284		232,794	
President	2002	450,501		71,897			
	2001	415,883		62,552		392,929	971,000 (6)
Kenneth J. Kay (7)	2003	450,000	300,000			99,769	
Current Senior Executive	2002	207,692				171,824	300,000 (8)
Vice President and Chief Financial Officer							
James H. Leonetti (9)	2002	147,138					170,000 (10)
Former Senior Executive	2001	254,458				47,629	453,500 (11)
Vice President and Chief Financial Officer							
Alan C. Froggatt (12)	2003	337,351	536,190	20,777 (13)		83,141	566 (14)
President, EMEA							
Robert Blain (15)	2003	302,308	344,506	157,692		69,284	
President, Asia Pacific	2002	225,000	100,000	120,000			15,000 (16)

(1) Bonuses for each year are paid in the first quarter of the following year pursuant to our Annual Management Bonus Plan. For example, the bonus shown for 2003 represents the 2002 annual bonus that was paid in the first quarter of 2003.

(2) Pursuant to the 1996 Equity Incentive Plan, or EIP, Mr. White purchased 25,000 shares of CB Richard Ellis Services common stock in 1998 at a purchase price of \$38.50 per share and 20,000 shares of CB Richard Ellis Services common stock in 2000 at a purchase price of

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\$12.875 per share. These purchases were paid for by the delivery of full-recourse promissory notes. A First Amendment to Mr. White's 1998 promissory note provided that the portion of the then outstanding principal in excess of the fair market value of the shares would be forgiven in the event that Mr. White was an employee of ours or of our subsidiaries on November 16, 2002 and the fair market value of our common stock was at least \$13.89 per share on November 16, 2002. As part of our acquisition of CB Richard Ellis Services in 2001, the 25,000 shares of CB Richard Ellis Services common stock purchased by Mr. White were exchanged for 69,284 shares of our Class B common stock, which shares were substituted for CB Richard Ellis Services shares as security for the note. Mr. White's promissory note was subsequently amended in 2001, terminating the First Amendment and adjusting the original 1998 Stock Purchase Agreement by reducing the purchase price from \$13.89 to \$5.77. The 25,000 shares held as security for the Second Amended Promissory Note were tendered as full payment for this note. The remaining note delivered by Mr. White accrues interest at 7.40% per year and all principal and accrued interest is payable on August 31, 2010. As part of our acquisition of CB Richard Ellis Services in 2001, the 20,000 shares of CB Richard Ellis Services common stock purchased by Mr. White were exchanged for 55,427 shares of our Class B common stock, which shares were substituted for CB Richard Ellis Services shares as security for the note. Pursuant to the EIP, Mr. Wirta

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purchased 30,000 shares of CB Richard Ellis Services common stock in 2000 at a purchase price of \$12.875 that was paid for by the delivery of a full-recourse promissory note. The note accrues interest at 7.40% per year and all principal and accrued interest is payable on August 31, 2010. As part of the acquisition, the 30,000 shares of CB Richard Ellis Services common stock were exchanged for 83,140 shares of our Class B common stock, which shares were substituted for the CB Richard Ellis Services shares as security for the note. All interest charged on the outstanding promissory note balances for any year is forgiven if the executive's performance produces a high enough level of bonus, with approximately \$7,500 of interest forgiven for each \$10,000 of bonus. In 2003, our board of directors forgave all 2002 interest on Mr. White's and Mr. Wirta's notes. Based on the 2003 bonuses paid to Messrs. Wirta and White in the first quarter of 2004, we expect all interest charged on their outstanding promissory notes in 2003 to be forgiven in 2004.

- (3) Pursuant to Mr. Blain's employment agreement, he received a schooling and housing allowance of \$120,000 in 2002 and \$157,692 in 2003.
- (4) In connection with our acquisition of CB Richard Ellis Services in 2001, we offered and sold shares of our Class A common stock for \$5.77 per share to certain of our employees, including 177,541 shares to Mr. Wirta and 73,615 shares to Mr. White. If the employment of the owner of such shares is terminated, we have the right to repurchase a portion of the shares at either fair market value or the amount paid for such shares by the owner, which depends upon whether the owner was terminated for cause or voluntarily left for a good reason, as such terms are defined in the owner's subscription agreement. On each of the first five anniversaries of the July 20, 2001 purchase date of the shares, 20% of the shares initially subject to repurchase cease to be subject to the right of repurchase. Accordingly, at December 31, 2003, 60% of such shares acquired by Mr. Wirta and Mr. White remain subject to repurchase. The per share consideration paid for these shares was the same as the per share consideration paid by certain of our stockholders to acquire shares of our Class A common stock and Class B common stock on July 20, 2001, which consideration was used to partially finance our acquisition of CB Richard Ellis Services. Our shares of Class A common stock were not publicly traded at such time. Accordingly, the Summary Compensation Table reflects a valuation of \$0 for these restricted stock awards.
- (5) In connection with our acquisition of CB Richard Ellis Services in 2001, we awarded cash retention bonuses to Messrs. Wirta, White and Leonetti to provide an incentive and reward for continued service up to and including the date of the acquisition. At the effective time of the acquisition, Messrs. Wirta, White and Leonetti also received for each of their options to purchase shares of CB Richard Ellis Services common stock the greater of (a) the amount by which \$16.00 exceeded the exercise price of the option, if any, and (b) \$1.00.
- (6) As described in greater detail in footnote (2) above, the promissory note delivered by Mr. White in 1998 as consideration for his purchase of 25,000 shares of CB Richard Ellis Services common stock for \$38.50 per share, or a total of \$962,500, was amended to adjust the principal amount of such promissory note to \$400,000. The \$562,500 difference is included as other compensation for Mr. White.
- (7) Mr. Kay joined us effective June 13, 2002.
- (8) Pursuant to Mr. Kay's former employment agreement, he received a sign-on bonus of \$300,000.
- (9) Mr. Leonetti ceased to be an executive officer and an employee of ours on July 19, 2002.
- (10) In connection with the termination of Mr. Leonetti's employment, he received a severance payment of \$170,000.
- (11) Pursuant to a separation agreement executed on November 19, 2001, Mr. Leonetti received a payment of \$300,000.
- (12) Mr. Froggatt joined us, effective July 23, 2003, when we acquired Insignia.
- (13) Mr. Froggatt received a car allowance of \$20,777 in 2003.

- (14) Mr. Froggatt received a benefit of \$566 under our life insurance program.
- (15) Mr. Blain joined us effective January 23, 2002.
- (16) Pursuant to Mr. Blain's employment agreement, he received a one-time transfer allowance of \$15,000.

**Table of Contents****Option Grants Table**

The following table sets forth information concerning stock option grants to our executive officers during the year ended December 31, 2003, each of which was granted pursuant to our 2001 stock incentive plan:

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in 2003	Exercise Price Per Shares	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Ray Wirta	232,794	7.9%	\$ 5.77	9/16/13	\$ 845,234	\$ 2,141,990
Brett White	232,794	7.9	5.77	9/16/13	845,234	2,141,990
Kenneth J. Kay	99,769	3.4	5.77	9/16/13	362,243	917,996
Alan C. Froggatt	83,141	2.8	5.77	9/16/13	301,869	764,996
Robert Blain	69,284	2.4	5.77	9/16/13	251,558	637,497

Each of the options disclosed in the option grant table above vests 20% per anniversary of the September 16, 2003 grant date.

On September 22, 2004, we granted to our executive officers options to acquire the following numbers of shares of our Class A common stock:

Ray Wirta 100,000; Brett White 100,000; Kenneth J. Kay 50,000; Robert Blain 30,000; and Alan C. Froggatt 20,000. Each of these options has an exercise price of \$22.39 per share, expires on September 22, 2009 and vests in 25% increments on each anniversary of the initial grant.

**Aggregated Options Table**

The following table sets forth information concerning unexercised options held as of December 31, 2003 by the persons named in the table under Summary Compensation Table. No options were exercised by our executive officers during 2003.

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ray Wirta			195,273	525,705		
Brett White			157,172	468,552		
Kenneth J. Kay			34,365	237,229		
Alan C. Froggatt				83,141		
Robert Blain				69,284		



The table above does not include the options granted to our executive officers on September 22, 2004.

## **Incentive Plans**

### ***2001 Stock Incentive Plan***

Our 2001 stock incentive plan was adopted by our board of directors, and approved by our stockholders, on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004, in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares remain available for issuance under the 2001 stock incentive plan. However, as of October 31, 2004, outstanding stock awards granted under the 2001 stock incentive plan to acquire 5,394,949 shares of our Class A common stock remain outstanding according to their terms, and we will

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continue to issue shares to the extent required under the terms of such outstanding awards. The 2001 stock incentive plan is administered by our board of directors, which may delegate its duties and powers in whole or in part to any committee of the board of directors.

Unless otherwise determined by our board of directors, awards granted under the 2001 stock incentive plan are not transferable other than by will or by the laws of descent and distribution. In the event of a change of control, which is defined in the 2001 stock incentive plan, (1) any outstanding awards then held by participants, including executive officers, which are unvested or otherwise unexercisable will automatically be deemed exercisable or otherwise vested, as the case may be, as of immediately prior to the change of control and (2) our board of directors may (a) provide for a cash payment to the holder of an award in consideration for the cancellation of the award and/or (b) provide for substitute or adjusted awards.

### ***2004 Stock Incentive Plan***

Our 2004 stock incentive plan was adopted by our board of directors on April 1, 2004, and approved by our stockholders, on April 21, 2004. The 2004 stock incentive plan authorizes the grant of stock-based awards to our employees, directors and consultants.

A total of 6,928,406 shares of our Class A common stock have been reserved for issuance under the 2004 stock incentive plan. This share reserve will be reduced by one share upon exercise or redemption of an option or stock appreciation right, and reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Shares of our common stock covered by awards that expire, terminate, lapse, are reacquired by us or are redeemed for cash rather than shares will again be available for grant under the stock incentive plan. No employee will be eligible to be granted options or stock appreciation rights covering more than 2,078,522 shares during any calendar year. In addition, our board of directors has adopted a policy stating that no person will be eligible to be granted options, stock appreciation rights, or restricted stock purchase rights covering more than 692,841 shares during any calendar year and to be granted any other form of stock award permitted under the 2004 stock incentive plan covering more than 346,420 shares during any calendar year. As of October 31, 2004, 1,265,643 shares were subject to options issued under our 2004 stock incentive plan and 5,631,263 shares remained available for future grants under the 2004 stock incentive plan.

The number of shares issued or reserved pursuant to the 2004 stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of mergers, consolidations, reorganizations, stock splits, stock dividends and other dilutive changes in our common stock. In addition, our board of directors may adjust outstanding awards to preserve the awards' benefits or potential benefits.

Our board of directors has delegated administration of the 2004 stock incentive plan to the compensation committee. The compensation committee, or our board of directors if the delegation of authority to the compensation committee is terminated in the future, has the authority to:

designate participants in the plan;

determine the type(s), number, terms and conditions of awards, as well as the timing and manner of grant;

interpret the plan; establish, adopt or revise any rules and regulations to administer the plan; and

make all other decisions and determinations that may be required under the plan.

Incentive stock options must have an exercise price that is at least equal to, and nonstatutory stock options an exercise price at least 85% of, the fair market value of our Class A common stock on the date the option is granted. An option holder may exercise an option by payment of the exercise price (1) in cash, (2) according to a deferred payment or similar arrangement, (3) pursuant to a same day sale program, (4) by the surrender of a number of shares of Class A common stock already owned by the option holder for at least six months with a fair

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market value equal to the exercise price or (5) by a combination approved by the board. In the event of the option holder's termination, the option holder will generally have up to three months (up to one year if due to disability or 18 months if due to death) from termination to exercise his/her vested options.

Directors who are neither employed by us nor receive a management fee from us will each automatically receive an annual grant of stock options with a per share exercise price equal to the fair market value of our Class A common stock and an aggregate exercise price equal to \$50,000. They will also each automatically receive an annual grant of restricted stock worth a total of \$25,000 on the date of grant.

Our board of directors may award restricted stock bonuses. Our board may also award restricted stock units, which entitle the participant the right to receive one share of common stock per unit at the time the unit vests, with delivery of such common stock on a date chosen by the participant. For both restricted stock bonuses and units, vesting will generally be based on the participant's continuous service. In the event a participant's continuous service terminates, all unvested common stock as of the date of termination will be subject to our reacquisition.

Our board of directors may grant stock appreciation rights independent of or in connection with an option. The base price per share of a stock appreciation right may be no less than 85% of the fair market value of our Class A common stock. Generally, each stock appreciation right will entitle a participant upon redemption to an amount equal to (a) the excess of (1) the fair market value on the redemption date of one share of common stock over (2) the base price, times (b) the number of shares of common stock covered by the stock appreciation right. To the extent a stock appreciation right is granted concurrently with an option, the redemption of the stock appreciation right will proportionately reduce the number of shares of common stock subject to the concurrently granted option. Payment shall be made in common stock or in cash, or a combination of both, as determined by the board. The plan also allows for grants of other stock-based awards such as restricted stock purchase rights, phantom stock units, performance shares and performance share units.

Unless otherwise determined by our board of directors or provided for in a written agreement evidencing an award, awards granted under the 2004 stock incentive plan are not transferable other than by will or by the laws of descent and distribution.

In the event of a change of control, as defined in the stock incentive plan, other than dissolution, the board may provide for the (1) assumption or continuation of any stock awards outstanding under the plan, (2) issuance of substitute awards that will substantially preserve the terms of any awards, (3) payment in exchange for the cancellation of an award or (4) termination of an award upon the consummation of the change of control, but only if the participant has been permitted to exercise or redeem an option or stock appreciation right prior to the change of control. Furthermore, at any time the board may provide for the acceleration of exercisability and/or vesting of an award.

Our board of directors may amend, suspend, or terminate the stock incentive plan in any respect at any time, but no amendment may materially impair any of the rights of a participant under any awards previously granted, without his/her consent.

### ***Deferred Compensation Plans***

We have two deferred compensation plans, one of which has been frozen and is no longer accepting deferrals, which we refer to as the Old DCP, and one of which became effective on August 1, 2004 and began accepting deferrals on August 13, 2004, which we refer to as the New DCP.

*Old DCP*

Prior to amending the Old DCP as discussed below, each participant in the Old DCP was allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or

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on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 80 mutual funds. Distributions with respect to the interest index and insurance fund accounts are made by us in cash. In addition, prior to July 2001, participants were entitled to invest their deferrals in stock fund units that are distributed as shares of our Class A common stock. As of October 31, 2004, there were 2,717,313 outstanding stock fund units under the Old DCP, all of which were vested.

Effective January 1, 2004, we closed the Old DCP to new participants. Until January 1, 2005, the Old DCP will continue to accept compensation deferrals from those participants who currently have a balance in the plan, meet the eligibility requirements and elect to participate, in each case up to a maximum annual contribution amount of \$250,000 per participant. Effective January 1, 2005, no additional deferrals will be permitted under this plan. Existing account balances under the plan will be paid to participants in the future according to their existing deferral elections. However, all participants may make unscheduled in-service withdrawals of their account balances, including the shares of Class A common stock underlying stock fund units, if they pay a penalty equal to 7.5% and the taxes due on the value of the withdrawal.

Prior to our initial public offering, all shares held by our current and former employees and consultants, including any shares that such employees and consultants are entitled to receive as distributions with respect to stock fund units in the Old DCP, were subject to transfer restrictions. In connection with our initial public offering, we waived all of these transfer restrictions. As a result, all of these shares, including any shares received as future distributions with respect to stock fund units in the Old DCP, may be sold, subject to applicable securities law requirements. Shortly after our initial public offering, we filed a registration statement on Form S-8 that registered, among other things, the shares of Class A common stock to be distributed in the future with respect to stock fund units in the Old DCP. We have entered into agreements with participants in the Old DCP holding stock fund units with 2,280,831 underlying shares of Class A common stock pursuant to which these participants have agreed to sell no more than 20% of the shares underlying their current stock fund unit balances during any year over the next five years in exchange for fixed cash payments by us to these participants.

### *New DCP*

Effective August 1, 2004, we adopted the New DCP, which began accepting deferrals for compensation otherwise earned after August 13, 2004. Under the New DCP, each participant is allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. Deferrals are credited at the participant's election to one or more investment alternatives under the New DCP, which include a money-market fund and a mutual fund investment option. There is limited flexibility for participants to change distribution elections once made. However, all participants may make unscheduled in-service withdrawals of their account balances if they pay a penalty equal to 7.5% and the taxes due on the value of the withdrawal.

### *401(k) Plan*

We maintain a tax qualified 401(k) retirement plan. Generally, our employees are eligible to participate in the plan if they are at least 21 years old. The plan provides for participant contributions, as well as discretionary contributions by us. A participant is allowed to contribute to the plan from 1% to 50% of his or her compensation, subject to limits imposed by applicable law. Each year, we determine an amount of employer contributions that we will contribute, if any, to the plan based on the performance and profitability of our consolidated U.S. operations. Our contributions for a year are allocated to participants who are actively employed on the last day of the plan year in proportion to each participant's pre-tax contributions for that year, up to 5% of the participant's compensation. Participants are entitled to invest up to 25% their 401(k) account balance in shares of our common stock. As of October 31, 2004, 274,136 shares of our common stock were held as investments by participants in our 401(k) plan.

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A participant may elect to receive a distribution from the plan in a single lump sum payment of his or her account balance following termination of the participant's employment with us. However, if the participant has

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an account balance in our common stock fund, the participant may receive all or a portion of his or her balance in that fund either in shares or in cash. We amended the plan on April 23, 2004 to provide that participants thereafter may only receive their account balances in the common stock fund in cash.

### **Employment Agreements with Executive Officers**

#### ***Alan C. Froggatt***

In connection with our acquisition of Insignia in 2003, Mr. Froggatt, our President, EMEA, entered into an amended and restated executive service agreement with us, which became effective upon the date of the closing of the acquisition on July 23, 2003 and superseded his prior employment agreement with Richard Ellis Group Limited. This agreement provides that Mr. Froggatt's employment may be terminated by us at any time.

This agreement also provides that Mr. Froggatt will have a fixed salary at the rate of £250,000 per year and the opportunity to earn an annual target bonus of £250,000 under our management bonus plan. For calendar year 2003, we agreed that Mr. Froggatt's annual bonus under the management bonus plan would be no less than £150,000. Also under the agreement, Mr. Froggatt is entitled to reimbursement of business-related expenses and to certain benefits and perquisites, including health insurance and life insurance benefits maintained by us from time to time.

The agreement further provides that if Mr. Froggatt's employment is terminated by us prior to December 31, 2004, he will be entitled to continue to receive his fixed salary, bonus and contractual benefits through December 31, 2005. If Mr. Froggatt's employment is terminated by us on or subsequent to December 31, 2004, he will be entitled to continue to receive his fixed salary, bonus and contractual benefits for (1) twelve months following the date of termination of his employment if we previously have not provided Mr. Froggatt with a twelve-month notice of our intention to terminate the employment agreement, or (2) if we have provided Mr. Froggatt with a twelve-month notice of our intention to terminate the employment agreement, for the remaining term of the twelve-month notice period.

Mr. Froggatt's agreement generally provides that (1) he will not engage, assist or have an interest in any undertaking which provides services similar to those provided by us or our affiliates in the United Kingdom for a period of one year following termination of his employment, (2) he will not employ, solicit or engage any person who was a senior executive or consultant of us or our affiliates for a period of one year following termination of his employment and (3) he will not solicit or interfere with or endeavor to entice away from us or our affiliates any person, firm, company or entity in the United Kingdom who was a client of us or our affiliates for a period of one year following termination of his employment.

#### ***Robert Blain***

On January 23, 2002, Mr. Blain, our President, Asia Pacific, entered into an employment agreement with us which extends for an indefinite term, subject to termination by either Mr. Blain or by us for any reason. Under the terms of his employment agreement, Mr. Blain receives an annual base salary of \$300,000, subject to annual review and adjustment. Mr. Blain also is eligible to earn an annual bonus based upon the level of profitability achieved by us in the greater China region during the applicable fiscal year.



If Mr. Blain's employment terminates for any reason other than his voluntary resignation or on account of his misconduct, he will be entitled to receive a payment of his annual bonus, calculated at the end of the year during which the termination occurs and pro-rated based on the date of termination. If Mr. Blain voluntarily resigns or is terminated by us due to misconduct, he will not be eligible to receive a pro-rated bonus for the year in which his employment terminates. Mr. Blain's employment agreement also contains a provision regarding confidentiality during and following termination of his employment with us, as well as a non-competition and non-solicitation provision for terms of three months and six months, respectively, following the termination of his employment.

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**RELATED PARTY TRANSACTIONS**

**Securityholders Agreement**

In connection with our acquisition of CB Richard Ellis Services in 2001, we and CB Richard Ellis Services entered into a securityholders agreement with our stockholders listed below:

our stockholders affiliated with Blum Capital Partners, L.P.;

our stockholders affiliated with Freeman Spogli & Co. Incorporated;

Ray Wirta, who is our Chief Executive Officer;

Brett White, who is our President;

Frederic V. Malek, who is one of our directors;

The Koll Holding Company;

California Public Employees Retirement System; and

our stockholders that purchased shares of our Class A common stock in connection with the issuance on July 20, 2001 of our 16% senior notes due 2011, some of whom are affiliates of Credit Suisse First Boston LLC.

The securityholders agreement defines various rights of the stockholders that are parties to the agreement related to their ownership of common stock.

*Nomination of Directors and Voting.* Our stockholders affiliated with Blum Capital Partners are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Our stockholders affiliated with Freeman Spogli are entitled to nominate one person to our board of directors for so long as these stockholders, collectively, beneficially own at least 7.5% of our outstanding common stock. The stockholders that are parties to the securityholders agreement that owned shares of our Class B common stock, other than Mr. Malek, are obligated to vote their shares in favor of the directors nominated by these affiliates of Blum Capital Partners and Freeman Spogli. As of October 31, 2004, these stockholders, collectively, beneficially owned approximately 54.7% of our outstanding common stock.

*Registration Rights.* Each of the stockholders that are parties to this agreement has registration rights, which are described in further detail under the heading titled Description of Capital Stock Registration Rights.

*Indemnification.* We are obligated to indemnify the stockholders that are parties to the securityholders' agreement and each of their respective affiliates, controlling persons, directors, officers, employees and agents from and against any and all damages, claims, losses, expenses, costs, obligations and liabilities, including all reasonable attorneys' fees and expenses but excluding special or consequential damages, arising from, relating to or otherwise in respect of, any governmental or other third party claim against these indemnified persons that arises from, relates to or is otherwise in respect of (1) our business, operations, liabilities or obligations or (2) the ownership by the stockholders or any of their respective affiliates of any of our equity securities, except to the extent these losses and expenses (x) arise from any claim that the indemnified person's investment decision relating to the purchase or sale of these equity securities violated a duty or other obligation of the indemnified person to the claimant or (y) are finally determined in a judicial action by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the stockholder or its affiliates.

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### **Loans to Our Executive Officers**

#### ***Currently Outstanding Loans***

*Loan Related to Acquisition of Common Stock by Ray Wirta.* At the time of our acquisition of CB Richard Ellis Services in 2001, Mr. Wirta delivered a full-recourse note in the amount of \$512,504 as payment for a portion of our shares of Class A common stock purchased in connection with an offering of shares of our Class A common stock to our employees in 2001. Mr. Wirta's promissory note is repayable upon the earliest to occur of the following: (1) July 20, 2010, (2) 180 days following Mr. Wirta's termination of employment if terminated by us without cause, by him for good reason or as a result of his death or disability and (3) 90 days following Mr. Wirta's termination of employment if terminated for any reason not described in clause (2) above. This note bears interest at 10.0% per year. During 2002 and 2003, Mr. Wirta paid down his loan amount by \$40,004 and \$70,597, respectively. As of September 30, 2004 and December 31, 2003, Mr. Wirta had an outstanding loan balance of \$401,903, which is included in notes receivable from the sale of common stock in our consolidated balance sheet included elsewhere in this prospectus.

*1996 Equity Incentive Plan Loans to Ray Wirta and Brett White.* Each of Mr. Wirta and Mr. White has an outstanding loan pursuant to the CB Richard Ellis Services 1996 Equity Incentive Plan, which loans are described in further detail under the heading "Management Compensation of Executive Officers."

*Loan to Ray Wirta Pursuant to Former Employment Agreement.* Pursuant to the terms of Mr. Wirta's former employment agreement with us that he entered into in 2001, we agreed to loan Mr. Wirta up to \$3.0 million on a full-recourse basis to enable him to exercise an existing option to acquire shares held by The Koll Holding Company if Mr. Wirta were employed by us at the time of exercise, were terminated without cause or resigned for good reason and the shares he would receive upon such exercise would not be freely tradable on a national securities exchange or an over-the-counter market by June 2004. Mr. Wirta exercised his option on April 8, 2004 and, pursuant to the terms of his former employment agreement, we loaned Mr. Wirta \$3.0 million on that date. Mr. Wirta's shares would not have been freely tradable on a national securities exchange or on an over-the-counter market by June 2004 as a result of transfer restrictions applicable to Mr. Wirta's shares. This loan is repayable upon the earliest to occur of the following: (1) 90 days following termination of his employment, other than by us without cause or by him for good reason, (2) seven months following the date Mr. Wirta's shares of common stock are freely tradable as described above and (3) the receipt of proceeds from the sale of the pledged shares described below. This loan bears interest at 4% per year, which was the prime rate in effect on the date of the loan, compounded annually, and is repayable to the extent of any net proceeds received by Mr. Wirta upon the sale of any shares of our common stock. Mr. Wirta pledged the shares received upon exercise of the option as security for the loan.

#### ***Previously Outstanding Loans***

*Retention and Recruitment Award Loans.* In the past we have made loans to our employees that represent prepaid retention and recruitment awards at varying principal amounts, bearing interest at rates up to 10.0% per annum and maturing on various dates through 2007. As of December 31, 2003, the outstanding employee loan balances included a \$0.3 million loan to Ray Wirta and a \$0.2 million loan to Brett White. These non-interest-bearing loans to Mr. Wirta and Mr. White were issued during 2002 and were due and payable on December 31, 2003. The compensation committee of our board of directors forgave these loans to Messrs. Wirta and White in full, effective January 1, 2004.

*Loans Related to Acquisitions of Common Stock.* In the past, we have made full recourse loans to employees, officers and certain of our stockholders for the purchase of shares of our common stock. These loans are secured by shares of our common stock that are owned by the borrowers. As of December 31, 2003, Mr. White had an outstanding loan of \$179,886, which amount is included in notes receivable from sale of

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common stock in the accompanying consolidated balance sheets included elsewhere in this prospectus. This loan relates to the acquisition of 12,500 shares of CB Richard Ellis Services common stock prior to our acquisition of CB Richard Ellis Services in 2001. Subsequent to the 2001 acquisition, these shares were converted into shares of our common stock and the

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related loan amount was carried forward. As amended, this loan accrued interest at 6.0% and the principal and all accrued interest was payable on or before April 23, 2010. Mr. White repaid this loan in full on February 10, 2004.

At the time of our acquisition of CB Richard Ellis Services, Mr. Wirta delivered to us an \$80,000 promissory note as payment for the purchase of 13,856 shares of our Class B common stock. Mr. Wirta repaid this promissory note in full in April of 2002. Additionally, Mr. White delivered a full-recourse note in the amount of \$209,734 as payment for a portion of our shares of Class A common stock purchased in connection with an offering of shares of our Class A common stock to our employees in 2001. This note bore interest at 10.0% per year. During 2002, Mr. White paid off his note in its entirety.

*1996 Equity Incentive Plan Loans to Ray Wirta and Brett White.* In addition to the currently outstanding loan referenced above, Mr. White had an outstanding loan pursuant to the CB Richard Ellis Services 1996 Equity Incentive Plan that was repaid in full, which loan is described in further detail under the heading titled Management Compensation of Executive Officers.

## **Transactions Related to Our Acquisition of CB Richard Ellis Services in 2001**

*Purchases of Common Stock and Grants of Stock Options.* In connection with our acquisition of CB Richard Ellis Services in 2001, our stockholders that previously owned shares of our Class B common stock, collectively, contributed 7,967,774 shares of CB Richard Ellis Services common stock to us in exchange for 22,081,590 shares of our Class B common stock. Also in connection with the acquisition, our stockholders affiliated with Blum Capital Partners made aggregate cash contributions to us of approximately \$71.0 million in exchange for an aggregate of 12,291,419 shares of our Class B common stock.

Also in connection with the acquisition, we offered and sold shares of our Class A common stock to certain of our employees at the time that were designated by our board of directors in consultation with Ray Wirta and Brett White. If each of these designated employees subscribed for a specified number of shares that was determined by our board of directors, they were entitled to receive a grant of options to acquire our Class A common stock. These options have an exercise price of \$5.77 per share and a term of 10 years, with 20% of the options vesting on each of the first five anniversaries of the completion of the acquisition and all vesting if there is a change in control of us. In connection with this offering, Ray Wirta purchased 177,541 shares of our Class A common stock and received a grant of 488,184 options to acquire Class A common stock and Brett White purchased 73,615 shares of our Class A common stock and received a grant of 392,929 shares of our Class A common stock. As described in greater detail above, Mr. Wirta delivered a full-recourse note to us in the aggregate principal amount of \$512,504 as payment for a portion of his shares and Mr. White delivered a full-recourse note in the aggregate principal amount of \$209,734 as payment for a portion of his shares. Each of Mr. Wirta and Mr. White pledged as security for his full-recourse note a number of shares having an offering price equal to 200% of the amount of his note.

*Transaction Fees.* In connection with advisory services related to our acquisition of CB Richard Ellis Services in 2001, we paid a fee of \$3.0 million to an affiliate of Blum Capital Partners and \$2.0 million to an affiliate of Freeman Spogli. These advisory services included, among other things, transaction and structuring analysis, financing analysis and the arrangement and negotiation of debt and equity financing. The amounts of these fees were the result of negotiations among the affiliates of Blum Capital Partners and Freeman Spogli and the other parties that provided equity financing in connection with our acquisition of CB Richard Ellis Services. We also reimbursed certain expenses of our stockholders affiliated with Blum Capital Partners and Freeman Spogli.

*Treatment of Warrants to Acquire Shares of CB Richard Ellis Services Common Stock.* Pursuant to an agreement entered into in connection with the acquisition of CB Richard Ellis Services, we issued to our stockholders affiliated with Freeman Spogli a warrant to acquire 708,019 shares of

our Class B common stock at an exercise price of \$10.825 per share in exchange for the cancellation of previously outstanding warrants to

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acquire 364,884 shares of CB Richard Ellis Services common stock. These warrants were automatically exercised on a cashless basis in connection with our initial public offering in June 2004.

Also pursuant to the same agreement, previously outstanding warrants to acquire 84,988 shares of CB Richard Ellis Services common stock beneficially owned by Ray Wirta and The Koll Holding Company were cancelled and Mr. Wirta and The Koll Holding Company received \$1.00 per share underlying these warrants in connection with the closing of the 2001 acquisition.

## **Transactions Related to Our Acquisition of Insignia in 2003**

In connection with our acquisition of Insignia, our stockholders affiliated with Blum Capital Partners made aggregate cash contributions to us of \$105,394,160 in exchange for an aggregate of 18,255,338 shares of our Class B common stock and Frederic V. Malek made a cash contribution to us of \$960,000 in exchange for 166,281 shares of our Class B common stock.

## **Other Business Relationships with Our Directors**

CBRE Investors and certain investment funds managed by it retained the law firm of Mayer, Brown, Rowe & Maw LLP, including its predecessors, to provide legal services during each of 2003, 2002 and 2001. Michael Kantor, who has been a member of our board of directors since February 2004, currently is a partner at Mayer, Brown, Rowe & Maw LLP.



**Table of Contents****PRINCIPAL AND SELLING STOCKHOLDERS**

The table below sets forth the number of shares of our Class A common stock beneficially owned, and the percentage ownership of our common stock, as of October 31, 2004 for the following persons:

each person that beneficially owns 5% or more of our Class A common stock;

each of our directors;

each of our executive officers;

all of our directors and executive officers as a group; and

each selling stockholder.

Except as otherwise noted below, the address for each person listed on the table is c/o CB Richard Ellis Group, Inc., 865 South Figueroa Street, Suite 3400, Los Angeles, California 90017. Beneficial ownership is determined in accordance with the federal securities rules that generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares subject to options or warrants held by that person that are or will become exercisable within 60 days of October 31, 2004 are deemed outstanding, although the shares are not deemed outstanding for purposes of computing percentage ownership of any person.

	Shares Beneficially Owned Prior to the Offering		Shares to be Sold in the Offering (1)	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
<b>Greater than 5% Stockholders:</b>					
Blum Strategic Partners, L.P.					
Blum Strategic Partners II, L.P.					
Blum Strategic Partners II GmbH & Co. KG (2)(3)	29,048,352	41.2%	10,000,000	19,048,352	27.0%
FS Equity Partners III, L.P.					
FS Equity Partners International, L.P. (2)(4)	6,946,390	9.9	3,134,203	3,812,187	5.4
<b>Executive Officers and Directors:</b>					
Ray Wirta (2)(5)	2,059,523	2.9		2,059,523	2.9
Brett White (2)(6)	515,284	*		515,284	*
Kenneth J. Kay (7)	88,683	*		88,683	*
Alan C. Froggatt (8)	16,628	*		16,628	*
Robert Blain (9)	13,856	*		13,856	*
Richard C. Blum (2)(3)(10)	29,050,843	41.2	10,000,000	19,050,843	27.0
Jeffrey A. Cozad (2)(3)(10)	29,050,843	41.2	10,000,000	19,050,843	27.0

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Patrice Marie Daniels (10)	2,491	*		2,491	*
Bradford M. Freeman (2)(4)(10)	6,948,881	9.9	3,134,203	3,814,678	5.4
Michael Kantor (10)	2,491	*		2,491	*
Frederic V. Malek (10)	908,019	1.3	311,731	596,288	*
Jeffrey S. Pion (11)	28,592	*		28,592	*
Gary L. Wilson (12)	8,033	*		8,033	*
All directors and executive officers as a group	39,645,815	55.7	13,445,934	26,199,881	36.8

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	Shares Beneficially Owned Prior to the Offering		Shares to be Sold in the Offering (1)	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
<b>Other Selling Stockholders:</b>					
California Public Employees Retirement System (13)	2,472,105	3.5%	851,031	1,621,074	2.3
DLJ Investment Partners II, L.P.					
DLJ Investment Partners, L.P.					
DLJIP II Holdings, L.P. (14)	1,420,656	2.0	640,999	779,657	1.1
Stanfield Arbitrage CDO, Ltd.					
Stanfield CLO, Ltd.					
Stanfield/RMF Transatlantic CDO, Ltd. (15)	51,697	*	51,697		
National City Corporation (16)	10,339	*	10,339		

\* less than 1.0%

- (1) If the underwriters exercise in full their over-allotment option, some of the selling stockholders will sell 2,250,000 additional shares of Class A common stock, which sale is not reflected in the table above. Assuming the over-allotment option is exercised in full, these selling stockholders will sell the following additional shares: Blum Strategic Partners, L.P. 247,796; Blum Strategic Partners II, L.P. 287,843; Blum Strategic Partners II GmbH & Co. KG 5,935; FS Equity Partners III, L.P. 834,240; FS Equity Partners International, L.P. 31,557; Frederic V. Malek 16,882; California Public Employees Retirement System 46,090; DLJ Investment Partners II, L.P. 443,070; DLJ Investment Partners, L.P. 196,897; and DLJIP II Holdings, L.P. 139,690.
- (2) As a result of the voting provisions set forth in the securityholders agreement described in greater detail in this prospectus under the heading Related Party Transactions Securityholders Agreement, this stockholder, together with our other stockholders that owned shares of Class B common stock prior to our initial public offering, other than Frederic V. Malek, may be deemed to constitute a group, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, after the offering. Accordingly, the group formed by these stockholders may be deemed to beneficially own 25,701,710 shares of our Class A common stock after the offering.
- (3) Prior to the offering, consists of 13,291,018 shares of our Class A common stock owned by Blum Strategic Partners, L.P., 15,439,006 shares of our Class A common stock owned by Blum Strategic Partners II, L.P. and 318,328 shares of our Class A common stock owned by Blum Strategic Partners II GmbH & Co. KG. In connection with the offering, Blum Strategic Partners will sell 4,575,481 shares, Blum Strategic Partners II, L.P. will sell 5,314,933 shares and Blum Strategic Partners II GmbH & Co. KG will sell 109,586 shares. The sole general partner of Blum Strategic Partners, L.P. is Blum Strategic GP, L.L.C., and the sole general partner of Blum Strategic Partners II, L.P. and the managing limited partner of Blum Strategic Partners II GmbH & Co. KG is Blum Strategic GP II, L.L.C. Richard C. Blum is a managing member of Blum Strategic GP, L.L.C. and each of Messrs. Blum and Cozad is a managing member of Blum Strategic GP II, L.L.C. Except as to any pecuniary interest, each of Messrs. Blum and Cozad disclaims beneficial interest in all of these shares. The business address of Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG, Blum Strategic GP, L.L.C., Blum Strategic GP II, L.L.C., Richard C. Blum and Jeffrey A. Cozad is 909 Montgomery Street, Suite 400, San Francisco, California 94133. As a result of the securityholders agreement, Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P. and Blum Strategic Partners II GmbH & Co. KG share voting power over the indicated shares with our other stockholders that owned shares of Class B common stock prior to their conversion to shares of Class A common stock in June 2004.
- (4) Prior to the offering, consists of 6,693,205 shares of our Class A common stock held by FS Equity Partners III, L.P., or FSEP III, and 253,185 shares of our Class A common stock held by FS Equity Partners

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International, L.P., or FSEP International. In connection with the offering, FSEP III will sell 3,019,966 shares and FSEP International will sell 114,237 shares. As general partner of FS Capital Partners, L.P., which is the general partner of FSEP III, FS Holdings, Inc. has the power to vote and dispose of the shares owned by FSEP III. As general partner of FS&Co. International, L.P., which is the general partner of FSEP International, FS International Holdings Limited has the power to vote and dispose of the shares owned by FSEP International. Bradford Freeman, who is one of our directors, Ronald Spogli, Frederick Simmons, William Wardlaw, John Roth and Charles Rullman, Jr. are the directors, officers and shareholders of FS Holdings, Inc. and FS International Holdings Limited, and may be deemed to be the beneficial owners of the shares of common stock, and rights to acquire common stock, owned by FSEP III and FSEP International. Brad Freeman is a director and owner of less than 10% of the securities of, and Ronald Spogli is the owner of less than 10% of the securities of, a registered broker-dealer. Both FSEP III and FSEP International acquired the shares of our common stock beneficially owned by them in the ordinary course of business and, at the times they acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of FSEP III, FS Capital Partners, L.P. and FS Holdings, Inc. and their directors, officers and beneficial owners is 11100 Santa Monica Boulevard, Suite 1900, Los Angeles, California 90025. The business address of FSEP International, FS&Co. International, L.P. and FS International Holdings Limited is c/o Paget-Brown & Company, Ltd., West Winds Building, Third Floor, Grand Cayman, Cayman Islands, British West Indies. As a result of the securityholders' agreement, FSEP III and FSEP International share voting power over the indicated shares with our other stockholders that owned shares of Class B common stock prior to their conversion to shares of Class A common stock in June 2004.

- (5) Includes 339,470 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days. As a result of the securityholders' agreement, Mr. Wirta shares voting power over 1,720,053 of the indicated shares with our other stockholders that owned shares of Class B common stock prior to their conversion to shares of Class A common stock in June 2004.
- (6) Mr. White is co-trustee and, together with his wife Danielle, is the beneficiary of The White Family Trust, which owns 273,730 of the indicated shares. Includes 172,270 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days. Also includes 69,284 shares of Class A common stock underlying vested stock fund units in our deferred compensation plan. In connection with any voluntary or involuntary termination of his employment with us, Mr. White may be entitled to receive an issuance of some or all of the shares underlying the stock fund units within 60 days of such termination, depending upon the date of such termination and the current terms of the election he has made under the plan. As a result of the securityholders' agreement, Mr. White shares voting power over 273,730 of the indicated shares with our other stockholders that owned shares of Class B common stock prior to their conversion to shares of Class A common stock in June 2004.
- (7) Includes 88,683 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days.
- (8) Includes 16,628 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days.
- (9) Includes 13,856 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days.
- (10) Includes 491 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days.
- (11) Includes 28,592 shares of Class A common stock underlying vested stock fund units in our deferred compensation plan. In connection with any voluntary or involuntary termination of his employment with us, Mr. Pion may be entitled to receive a distribution of some or all of the shares underlying the stock fund units within 60 days of such termination, depending upon the date of such termination and the current terms of the election he has made under the plan.
- (12) Includes 6,033 shares of Class A common stock subject to options that are exercisable or will be exercisable within 60 days.

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- (13) CalPERS owns a less than 10% non-managing member interest in a registered broker-dealer. CalPERS acquired the shares of our common stock beneficially owned by it in the ordinary course of business and, at the times it acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of CalPERS is 400 P Street, Suite 3492, Sacramento, California 95814.
- (14) The shares beneficially owned include 807,342 shares of Class A common stock owned by DLJ Investment Partners II, L.P., 358,777 shares of Class A common stock owned by DLJ Investment Partners, L.P. and 254,537 shares of Class A common stock owned by DLJIP II Holdings, L.P. (collectively, the DLJIP Entities ). In connection with the offering, DLJ Investment Partners II, L.P. will sell 364,272 shares, DLJ Investment Partners, L.P. will sell 161,880 shares and DLJIP II Holdings, L.P. will sell 114,847 shares. Credit Suisse First Boston, a Swiss bank, owns a majority of the voting stock of Credit Suisse First Boston, Inc., which in turn owns all the voting stock of Credit Suisse First Boston (USA), Inc. ( CSFB-USA ). The DLJIP Entities are private equity funds advised by subsidiaries of CSFB-USA. Credit Suisse First Boston LLC, one of the underwriters in this offering, is a direct subsidiary of CSFB-USA. Credit Suisse First Boston Capital LLC ( CSFB Capital ), an indirect wholly owned subsidiary of CSFB-USA, is a registered broker-dealer. Neither CSFB-USA nor CSFB Capital holds any ownership interest in the DLJIP Entities. The DLJIP Entities acquired the shares of our common stock beneficially owned by them in the ordinary course of business and, at the times they acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address for each of the DLJIP Entities is 11 Madison Avenue, 16th Floor, New York, NY 10010.
- (15) The shares beneficially owned consist of 18,094 shares of Class A common stock owned by Stanfield Arbitrage CDO, Ltd., 18,094 shares of Class A common stock owned by Stanfield CLO, Ltd. and 15,509 shares of Class A common stock owned by Stanfield/RMF Transatlantic CDO, Ltd. In connection with the offering, each of Stanfield Arbitrage CDO, Ltd., Stanfield CLO, Ltd. and Stanfield/RMF Transatlantic CDO, Ltd. will sell all of its shares. Stanfield Arbitrage CDO, Ltd., Stanfield CLO, Ltd. and Stanfield/RMF Transatlantic CDO, Ltd. are structured finance vehicles (collectively, the Stanfield Funds ) and Stanfield Capital Partners LLC is the collateral manager to each of the Stanfield Funds. Stanfield Capital Partners LLC, in its capacity as collateral manager to such funds, is able to direct the voting and disposition of the indicated shares. As such, it may be deemed to be the beneficial owner of the shares owned by the Stanfield Funds. Stanfield Capital Partners LLC disclaims any such beneficial ownership. The business address for each of the Stanfield Funds is Hemisphere House, 9 Church Street, Third Floor, Harbour Centre, Hamilton, Bermuda HM11, British West Indies. A copy of any correspondence to any of the Stanfield Funds should also be sent to Stanfield Capital Partners LLC, 430 Park Avenue, 12th Floor, New York, NY 10022.
- (16) National City Corporation owns 100% of a registered broker-dealer. Provident Financial Group, Inc., the predecessor by merger to National City Corporation, purchased the shares of our common stock beneficially owned by National City Corporation in the ordinary course of business and, at the time it acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of National City Corporation is 1900 East Ninth Street, Cleveland, OH 44114.

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**DESCRIPTION OF CAPITAL STOCK**

The following description summarizes information regarding our capital stock. This information does not purport to be complete and is subject in all respects to the applicable provisions, of the Delaware General Corporation Law, and our restated certificate of incorporation and restated by-laws, which are included as exhibits to the registration statement of which this prospectus forms a part.

**Common Stock**

*Generally.* We are authorized to issue 325,000,000 shares of Class A common stock, \$0.01 par value per share. On May 4, 2004, we completed a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock, which was effected by a stock dividend. On June 7, 2004, we amended our certificate of incorporation to effect a 1-for-1.0825 reverse stock split. In June 2004, in connection with our initial public offering, all of the previously outstanding shares of our Class B common stock were converted into shares of Class A common stock at a 1-for-1 ratio. As of October 31, 2004, we had 70,438,865 shares of Class A common stock outstanding.

*Voting Rights.* Holders of our Class A common stock generally are entitled to one vote per share on all matters on which our stockholders are entitled to vote. Our directors are elected by a plurality of the votes of the shares of Class A common stock present in person or represented by proxy at a stockholder meeting called for such election. The holders of Class A common stock do not have cumulative voting rights in the election of directors.

*Dividends.* Holders of our Class A common stock are entitled to receive ratably dividends if, as and when declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on any outstanding preferred stock, as described below. Our senior credit facilities and indentures impose restrictions on our ability to declare dividends with respect to our Class A common stock.

*Liquidation Rights.* Upon our dissolution, liquidation or winding up, the holders of our Class A common stock are entitled to receive ratably the assets available for distribution to our stockholders after payment of liabilities and accrued but unpaid dividends and liquidation preferences on any outstanding preferred stock.

*Other Matters.* Our Class A common stock does not have preemptive or conversion rights and is not subject to further calls or assessment by us. There are no redemption or sinking fund provisions applicable to our Class A common stock.

**Preferred Stock**

Our board of directors is authorized, subject to any limitations imposed by law, without the approval of our stockholders, to issue from time to time up to a total of 25,000,000 shares of our preferred stock, in one or more series, with each such series having rights and preferences, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as our board of directors may determine. The issuance of our preferred stock, while potentially providing us with flexibility in connection with possible acquisitions and other

corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

**Registration Rights**

Pursuant to a securityholders' agreement, the other terms of which are described under the heading "Related Party Transactions - Securityholders Agreement," we have granted registration rights to our stockholders that are parties to that agreement.

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*Demand Registrations.* As a result of these registration rights, after we have completed this offering and upon the expiration or earlier waiver of the lock-up period imposed by the underwriters, we can be required by some of our stockholders to effect additional registration statements, or demand registrations, registering the securities held by the stockholder for sale under the Securities Act of 1933. Under this agreement, our stockholders affiliated with Blum Capital Partners may request six demand registrations and our stockholders affiliated with Freeman Spogli may request three demand registrations. After completion of the offering, these stockholders will beneficially own 22,860,539 shares of our common stock. Our stockholders affiliated with Blum Capital Partners have used one of their demand registrations in connection with the offering being made by this prospectus and will have five remaining demand registrations after completion of the offering. If a demand registration is underwritten and the managing underwriter advises us that marketing factors require a limitation on the number of shares to be underwritten, priority of inclusion in the demand registration generally is such that the stockholder initiating the demand registration receives first priority.

*Piggyback Registrations.* In addition to our obligations with respect to demand registrations, if we propose to register any of our securities, other than a registration relating to our employee benefit plans or a corporate reorganization or other transaction under Rule 145 of the Securities Act, whether or not the registration is for our own account, we are required to give each of our stockholders that is party to the securityholders agreement the opportunity to participate, or piggyback, in the registration. These piggyback registration rights apply in the offering because affiliates of Blum Capital Partners are selling shares in the offering. If a piggyback registration is underwritten and the managing underwriter advises us that marketing factors require a limitation on the number of shares to be underwritten, priority of inclusion in the demand registration generally is such that we receive first priority with respect to the shares we are issuing and selling.

*Other Registration Provisions.* The registration rights are subject to conditions and limitations, among them the right of the underwriters of an offering subject to the registration to limit the number of shares included in the offering. We generally are required to pay the registration expenses in connection with both demand and piggyback registrations. A stockholder's registration rights will terminate if we have completed an initial public offering of our common stock, the stockholder holds less than 0.5% of our outstanding common stock and the stockholder is entitled to sell all of its shares in any 90-day period under Rule 144 of the Securities Act. For additional information regarding sales under Rule 144, see the description under the heading titled "Shares Eligible for Future Sale" Sale of Restricted Shares.

## **Anti-Dilution Agreement**

In connection with the 2001 issuance and sale of our 16% senior notes due 2011, we issued an aggregate of 941,764 shares of our Class A common stock to the purchasers of the senior notes. On July 20, 2001, we also issued 504,462 shares of our Class A common stock to the affiliate of Credit Suisse First Boston LLC that originally committed to purchase our 16% senior notes. In connection with these issuances, we entered into an anti-dilution agreement pursuant to which these stockholders have the right to purchase additional shares of our Class A common stock for \$0.01 per share upon the occurrence of specified events.

These specified events include any issuance of shares of our common stock or options, warrants or other securities convertible into, or exchangeable or exercisable for, shares of our common stock, in each case, at a price that is less than the current market price per share of our common stock. The current market price per share of any class of our common stock at any date generally is the average of the quoted price of our common stock on a securities exchange for 30 consecutive trading days commencing 45 trading days before the date in question. If our shares are not listed on a securities exchange on the date in question, then the current market price would be determined by our board of directors, which determination in some cases must be based upon a valuation by an unaffiliated nationally-recognized investment banking or appraisal firm. With respect to issuances of stock options by us, the current market price following our initial public offering is determined based upon the quoted price of our common stock on the trading day immediately preceding the date of grant of the option.



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The right of these stockholders to purchase additional shares of our Class A common stock pursuant to the anti-dilution agreement is subject to important exceptions, which include issuances of common stock pursuant to bona fide public offerings and issuances of common stock pursuant to certain employee stock purchase programs.

If we consolidate or merge with or into, or transfer or lease all or substantially all of our assets to, any person, and in connection with such transaction the holders receive common stock of another entity or option, warrants or other securities convertible into or exchange for common stock of another entity, then upon consummation of such transaction, the right to purchase additional shares of our common stock under this agreement will automatically become applicable to the common stock of the other entity.

No adjustment in the number of shares held by these stockholders is required to be made unless the adjustment would require an increase or decrease of at least 1% in the number of shares held by these stockholders. Any such adjustments that are not made are carried forward and taken into account in determining any subsequent adjustments.

The anti-dilution agreement terminates on July 20, 2011 and, with respect to each of the shares of our Class A common stock subject to such agreement, the agreement also terminates at such time as such share has been transferred pursuant to a registration statement filed with the SEC or pursuant to Rule 144 of the rules and regulations promulgated by the SEC under the Securities Act of 1933.

## **Anti-Takeover Effects of Certain Provisions of Our Restated Certificate of Incorporation and Restated By-Laws**

Certain provisions of our restated certificate of incorporation and restated by-laws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

## ***Advance Notice Requirements for Stockholder Proposals and Director Nominations***

Our restated by-laws provide that stockholders seeking to nominate candidates for election as directors or to bring business before a meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. Generally, to be timely, a stockholder's notice will need to be received at our principal executive offices not less than 90 days nor more than 120 days prior to, in the case of annual meetings, the first anniversary date of the previous year's annual meeting and, in the case of special meetings, the date of such special meeting. Our restated by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

## ***Amendments***

Our restated certificate of incorporation grants our board of directors the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation.

**Limitations on Liability and Indemnification of Officers and Directors**

Our certificate of incorporation provides that our directors may not be held liable to us or our stockholders for monetary damages for breach of their fiduciary duties as directors, except to the extent the exemption from, or limitation of, liability is not permitted under Delaware law.

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Our certificate of incorporation also provides that we must indemnify our directors and officers to the fullest extent authorized by Delaware law. We are also expressly authorized to carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

## **Delaware Anti-Takeover Statute**

Pursuant to our certificate of incorporation prior to May 4, 2004, we had opted out of the protections of Section 203 of the Delaware General Corporation Law. In our restated certificate of incorporation that we filed, and that became effective, on May 4, 2004, we opted in to Section 203. Subject to specified exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder.

Business combinations include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, an interested stockholder is a person who together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These restrictions generally prohibit or delay the accomplishment of mergers or other takeover or change-in control attempts. However, in connection with our opt in, our stockholders that currently own 15% or more of our outstanding voting stock, including affiliates of Blum Capital Partners, L.P. and affiliates of Freeman Spogli & Co. Incorporated, are not considered interested stockholders under Section 203.

## **Transfer Agent**

The transfer agent for our Class A common stock is The Bank of New York located at 101 Barclay Street, New York, New York, 10286 and its telephone number is (212) 815-3776.

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**SHARES ELIGIBLE FOR FUTURE SALE**

We can make no predictions as to the effect, if any, that sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of significant amounts of our common stock in the public market, or the perception that those sales may occur, could adversely affect prevailing market prices and impair our future ability to raise capital through the sale of our equity at a time and price we deem appropriate.

**Sale of Restricted Shares and Shares Held by Affiliates**

As of October 31, 2004, we had 70,438,865 shares of common stock outstanding. In addition, as of October 31, 2004, 9,377,905 shares of common stock were issuable upon the exercise of outstanding stock options or in connection with distributions pursuant to our old deferred compensation plan. Of the outstanding shares after completion of the offering, all of the 15,000,000 shares sold in the offering, all of the 24,229,300 shares issued and sold in our initial public offering and substantially all of our other currently outstanding shares held by our current and former employees and consultants immediately will be freely tradable without further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations under Rule 144 as described below. In addition, 25,857,558 shares subject to the lock-up agreements described below will be eligible for sale at various times beginning 90 days after the date of this prospectus pursuant to Rule 144, including 144(k).

***Rule 144***

In general, under Rule 144 as currently in effect, any person (or persons whose shares must be aggregated), including an affiliate of ours, who has beneficially owned restricted shares of our common stock for at least one year is entitled to sell in any three-month period a number of shares that does not exceed the greater of the following:

1% of the then-outstanding shares of common stock, which, as of October 31, 2004 was approximately 704,000 shares; and

the average weekly reported volume of trading of our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of the sale is filed pursuant to Rule 144, subject to restrictions.

Sales under Rule 144 also must be sold only through brokers transactions or in transactions directly with a market maker, as those terms are defined in Rule 144. In addition, sales under Rule 144 are subject to notice requirements and the availability of current public information concerning us for at least 90 days after completion of the offering.

***Rule 144(k)***

A person (or persons whose shares must be aggregated) who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell those shares under Rule 144(k) without regard to the volume, manner of sale, notice or public information requirements of Rule 144 described above.



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### **Registrations on Form S-8**

On June 10, 2004, we filed a registration statement on Form S-8 under the Securities Act of 1933 to register shares of common stock issuable under our 2001 stock incentive plan, our old deferred compensation plan and our 2004 stock incentive plan. As a result, shares issued pursuant to our 2001 stock incentive plan and our 2004 stock incentive plan, including upon the exercise of stock options, and shares issued pursuant to our old deferred compensation plan are eligible for resale in the public market without restriction, subject to Rule 144 limitations applicable to affiliates described above and the lock-up and other agreements described below.

As of October 31, 2004:

5,394,949 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,463,498 shares were then exercisable;

1,265,643 shares subject to options issued under our 2004 stock incentive plan at a weighted average exercise price of \$22.33 per share, of which options to purchase 1,715 shares were then exercisable;

2,717,313 shares underlying outstanding stock fund units under our old deferred compensation plan, which are issuable in connection with future distributions under the plan pursuant to elections made by plan participants and all of which were vested; and

5,631,263 additional shares available for future grants under our 2004 stock incentive plan.

We have entered into agreements with participants in the old deferred compensation plan holding stock fund units with 2,280,831 underlying shares of common stock pursuant to which these participants have agreed to sell no more than 20% of the shares underlying their current stock fund unit balances during any year over the next five years in exchange for fixed cash payments by us to these participants.

### **Lock-Up Agreements**

For a description of the lock-up agreements with the underwriters that restrict sales of shares by us and the selling stockholders, see the information under the heading **Underwriting**.

### **Registration Rights**

For a description of registration rights with respect to our common stock, see the information under the heading titled **Description of Capital Stock Registration Rights**.



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**DESCRIPTION OF CERTAIN LONG-TERM INDEBTEDNESS**

**CB Richard Ellis Services Senior Secured Credit Facilities**

In connection with our acquisition of CB Richard Ellis Services in 2001, CB Richard Ellis Services entered into a credit agreement with a syndicate of lenders for which Credit Suisse First Boston, or CSFB, serves as the administrative agent and collateral agent. The credit agreement was amended as of the closing of the offering of our 9<sup>3</sup>/<sub>4</sub>% senior notes on May 22, 2003 to permit the issuance of the 9<sup>3</sup>/<sub>4</sub>% senior notes and was amended and restated upon the consummation of the Insignia acquisition on July 23, 2003. On October 14, 2003, CB Richard Ellis Services amended and restated the credit agreement a second time. On April 23, 2004, we entered into an amendment to the amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provided for the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, we amended and restated the credit agreement a third time in connection with the completion of our initial public offering. Effective November 16, 2004, we amended our amended and restated credit agreement to reduce the interest rates applicable to the term loan facility, as described below, and to modify some of the restrictive covenants in the agreement that are described below.

CB Richard Ellis Services senior secured credit facilities, as set forth in our amended and restated credit agreement, consists of a \$295.0 million term loan facility and a \$150.0 million revolving credit facility. Our amended and restated credit agreement also permits us to borrow up to \$25.0 million of additional term loans under the term loan facility, subject to the satisfaction of customary conditions.

The senior secured credit facilities are jointly and severally guaranteed by us and substantially all of CB Richard Ellis Services domestic subsidiaries, including future domestic subsidiaries. The senior secured credit facilities are secured by a pledge of all of the equity interests of CB Richard Ellis Services and its significant domestic subsidiaries, including CB Richard Ellis, Inc., CBRE Investors, L.L.C., L.J. Melody & Company, Insignia Financial Group, Inc. and Insignia/ESG, Inc., which was renamed CB Richard Ellis Real Estate Services, Inc., and 65% of the voting stock of its foreign subsidiaries that are held directly by it or its domestic subsidiaries. Additionally, these lenders generally have a lien on substantially all of our accounts receivable, cash, general intangibles, investment property and future acquired property.

Pursuant to our amended and restated credit agreement, the term loan facility matures on March 31, 2010 and amortizes in equal quarterly installments of \$2.95 million through December 31, 2009, with the balance payable on the maturity date. The revolving credit facility terminates on March 31, 2009. In the event of an increase in the term loan facility, the increased amount of such facility will mature at the same time or later as the remainder of the facility, depending upon the agreement we reach with the lenders for such increased facility.

Pursuant to our amended and restated credit agreement, borrowings under the senior secured credit facilities bear interest at the following rates:

Term loan facility at CB Richard Ellis Services option, either LIBOR plus 2.00% or the alternate base rate, as defined below, plus 1.00%;

Revolving credit facility at CB Richard Ellis Services option, either LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in each case as determined by reference to our ratio of total debt less available cash to EBITDA, as such terms are defined in the credit agreement; and



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Up to \$25.0 million incremental term loan facility depending upon the agreement we reach with the lenders for any such facility, either the rate for the term loan facility described above or a higher or lower rate.

The alternate base rate is the higher of (1) Credit Suisse First Boston's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent.

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We are required to pay to the lenders under the senior secured credit facilities a commitment fee on the unused portion of the revolving credit facility and a letter of credit fee on each letter of credit outstanding. We are also required to apply certain proceeds of sales of assets, issuances of equity, incurrences of debt and excess cash flow to the prepayment of the term loan.

The amended and restated credit agreement for the senior secured credit facilities contains customary restrictive covenants, including, among others, limitations on the ability of us and our subsidiaries to pay dividends on, redeem and repurchase capital stock; prepay, redeem and repurchase debt; incur liens; enter into sale/leaseback transactions; make loans and investments; incur indebtedness; enter into mergers, acquisitions and asset sales; enter into transactions with affiliates; change lines of business; and make capital expenditures.

In addition, the amended and restated credit agreement contains covenants that require us to maintain specified financial ratios, which include the following ratios: total debt less available cash to EBITDA; total senior secured debt less available cash to EBITDA; EBITDA to interest expense and EBITDA less capital expenditures and co-investments to interest expense.

The amended and restated credit agreement also includes customary events of default, including nonpayment of principal, interest, fees or reimbursement obligations with respect to letters of credit, violation of covenants, inaccuracy of representations and warranties in any material respect, cross default and cross-acceleration to certain other indebtedness and agreements, bankruptcy and insolvency events, material judgments and liabilities, defaults or judgments under ERISA and change of control. The occurrence of any of the events of default could result in acceleration of our obligations under the amended and restated credit agreement and foreclosure on the collateral securing the obligations.

This summary of the material provisions of the amended and restated credit agreement is qualified in its entirety by reference to all of the provisions of the amended and restated credit agreement, which is filed as an exhibit to the registration statement of which this prospectus is a part.

### **CB Richard Ellis Services 9<sup>3</sup>/<sub>4</sub>% Senior Notes Due 2010**

On May 22, 2003, CBRE Escrow, Inc. issued \$200.0 million in aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 for \$200.0 million. In connection with our acquisition of Insignia on July 23, 2003, CBRE Escrow merged into CB Richard Ellis Services, Inc., which assumed the 9<sup>3</sup>/<sub>4</sub>% senior notes, and we and substantially all of our domestic subsidiaries guaranteed the 9<sup>3</sup>/<sub>4</sub>% senior notes. CB Richard Ellis Services 9<sup>3</sup>/<sub>4</sub>% senior notes are its unsecured senior obligations and rank equally in right of payment with any of our existing and future senior unsecured indebtedness but are effectively subordinated to all of our secured debt to the extent of the value of the assets securing such debt. They are also structurally subordinated to all of the existing and future liabilities of CB Richard Ellis Services' subsidiaries that do not guarantee the notes. The 9<sup>3</sup>/<sub>4</sub>% senior notes are governed by an indenture among CB Richard Ellis Services, us, the other guarantors and U.S. Bank National Association, as trustee.

Interest accrues at a rate of 9<sup>3</sup>/<sub>4</sub>% per year and is payable semiannually in arrears. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. There are no mandatory sinking fund payments for our 9<sup>3</sup>/<sub>4</sub>% senior notes. We may at any time, and from time to time, purchase our 9<sup>3</sup>/<sub>4</sub>% senior notes in the open market or otherwise. We and certain of our subsidiaries guaranteed our 9<sup>3</sup>/<sub>4</sub>% senior notes on a senior unsecured basis. These guarantees by the guarantors of the notes are pari passu to all of such guarantors' existing and future indebtedness.



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Until May 15, 2006, our 9<sup>3/4</sup>% senior notes may be redeemed on one or more occasions in an amount not to exceed 35% of the principal amount of all issued 9<sup>3/4</sup>% senior notes at a redemption price of 109<sup>3/4</sup>%, plus accrued and unpaid interest to the redemption date, with cash proceeds raised in certain public equity offerings, as long as:

at least 65% of the aggregate principal amount of our 9<sup>3/4</sup>% senior notes, including any additional 9<sup>3/4</sup>% senior notes, remains outstanding after each redemption;

if the money is raised in an equity offering by us, we contribute to CB Richard Ellis Services an amount sufficient to redeem the 9<sup>3/4</sup>% senior notes; and

the 9<sup>3/4</sup>% senior notes are redeemed within 90 days after the completion of the related equity offering.

Pursuant to this provision of the indenture, we used a portion of the net proceeds we received from our initial public offering to redeem \$70.0 million in aggregate principal amount of our 9<sup>3/4</sup>% senior notes due 2010 in July 2004, which also required payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption.

On and after May 15, 2007, all or a portion of our 9<sup>3/4</sup>% senior notes will be redeemable at our option upon not less than 30 nor more than 60 days notice. The notes are redeemable at the redemption prices, expressed as a percentage of the principal amount on the redemption date, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing May 15 of the years below:

<u>Year</u>	<u>Percentage</u>
2007	104.875%
2008	102.438
2009 and thereafter	100.000

In the event of a change of control, which is defined in the indenture governing the 9<sup>3/4</sup>% senior notes, we will be obligated to make an offer to purchase all outstanding 9<sup>3/4</sup>% senior notes at a redemption price of 101% of the principal amount plus accrued interest, subject to certain conditions.

The indenture governing our 9<sup>3/4</sup>% senior notes contains customary restrictive covenants for high yield securities, including, among others, limitations on our ability and the ability of our subsidiaries to incur or guarantee additional indebtedness; pay dividends or distributions on capital stock or redeem or repurchase capital stock; make investments; create restrictions on the payment of dividends or other amounts to us; sell stock of our subsidiaries; transfer or sell assets; enter into transactions with affiliates; and enter into mergers and consolidations.

This summary of the material provisions of our 9<sup>3/4</sup>% senior notes is qualified in its entirety by reference to all of the provisions of the indenture governing our 9<sup>3/4</sup>% senior notes, which is filed as an exhibit to the registration statement of which this prospectus is a part.

**CB Richard Ellis Services 1<sup>1/4</sup>% Senior Subordinated Notes Due 2011**

On June 7, 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11 1/4% senior subordinated notes due 2011 for \$225.6 million. In connection with our acquisition of CB Richard Ellis Services in 2001, CB Richard Ellis Services assumed the 11 1/4% senior subordinated notes and we and substantially all of our domestic subsidiaries guaranteed the 11 1/4% senior subordinated notes. CB Richard Ellis Services 11 1/4% senior subordinated notes are our unsecured senior subordinated obligations and rank equally in right of payment with any of our existing and future senior subordinated unsecured indebtedness but are subordinated to any of our existing and future senior indebtedness. The 11 1/4% senior subordinated notes are governed by an indenture among CB Richard Ellis Services, us, the other guarantors and U.S. Bank National Association (as successor to State Street Bank and Trust Company of California, N.A.), as trustee.

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Interest accrues at a rate of 11 1/4% per year and is payable semiannually in arrears. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. There are no mandatory sinking fund payments for our 11 1/4% senior subordinated notes. We may at any time and from time to time purchase our 11 1/4% senior subordinated notes in the open market or otherwise. We and substantially all of our domestic subsidiaries guaranteed the 11 1/4% senior subordinated notes on a senior subordinated basis. These guarantees are subordinated to all of such guarantors' existing and future senior indebtedness, including guarantees by them of the senior secured credit facilities.

On and after June 15, 2006, all or a portion of our 11 1/4% senior subordinated notes will be redeemable at our option upon not less than 30 nor more than 60 days notice. The notes are redeemable at the redemption prices, expressed as a percentage of the principal amount on the redemption date, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing June 15 of the years below:

<u>Year</u>	<u>Percentage</u>
2006	105.625%
2007	103.750
2008	101.875
2009 and thereafter	100.000

In the event of a change of control, which is defined in the indenture governing the 11 1/4% senior subordinated notes, we will be obligated to make an offer to purchase all outstanding 11 1/4% senior subordinated notes at a redemption price of 101% of the principal amount plus accrued interest.

The indenture governing our 11 1/4% senior subordinated notes contains customary restrictive covenants for high yield securities, which covenants are substantially the same as the covenants in the indenture governing our 9 3/4% senior notes.

In May and June 2004, we purchased \$21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid an aggregate of \$3.1 million of premiums in connection with such purchases.

This summary of the material provisions of our 11 1/4% senior subordinated notes is qualified in its entirety by reference to all of the provisions of the indenture governing our 11 1/4% senior subordinated notes, which is filed as an exhibit to the registration statement of which this prospectus is a part.

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**CERTAIN U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following summary describes certain U.S. federal income and estate tax consequences of the ownership of our Class A common stock by a non-U.S. holder, as defined below, as of the date of this prospectus. This discussion does not address all aspects of U.S. federal income and estate taxes and does not deal with foreign, state and local consequences that may be relevant to non-U.S. holders in light of their personal circumstances. Special rules may apply to certain non-U.S. holders, such as U.S. expatriates, controlled foreign corporations, passive foreign investment companies, and investors in pass-through entities that are subject to special treatment under the Internal Revenue Code of 1986, or the Code. These non-U.S. holders should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and U.S. Treasury regulations, rulings and judicial decisions under the Code as of the date of this prospectus, and these authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in U.S. federal income and estate tax consequences different from those discussed below. **Persons considering the ownership of our Class A common stock should consult their own tax advisors concerning the U.S. federal income and estate tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

If a partnership holds our Class A common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Persons who are partners of partnerships holding our Class A common stock should consult their tax advisors.

As used in this section of the prospectus, a non-U.S. holder of our Class A common stock means a beneficial owner, other than an entity treated as a partnership, that is not any of the following for U.S. federal income tax purposes:

an individual citizen or resident of the United States,

a corporation, or entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any of its states or the District of Columbia,

an estate the income of which is subject to U.S. federal income taxation regardless of its source, or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

**Dividends**

Dividends paid to a non-U.S. holder of our Class A common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States and, where a tax treaty applies, are attributable to a U.S. permanent establishment of the non-U.S. holder, are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to U.S. federal income tax on a net income basis in the same manner as if the non-U.S. holder were a U.S. person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

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A non-U.S. holder of our Class A common stock who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends, will be required to (a) complete Internal Revenue Service Form W-8BEN or other applicable form and certify under penalty of perjury that such holder is not a U.S. person or (b) if the Class A common stock is held through certain foreign intermediaries, satisfy the



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relevant certification requirements of applicable U.S. Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are entities rather than individuals.

A non-U.S. holder of our Class A common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

### **Gain on Disposition of Our Class A Common Stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our Class A common stock unless one of the following applies:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States, and, where a tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. holder,

in the case of a non-U.S. holder who is an individual and holds the Class A common stock as a capital asset, such holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not, and do not anticipate becoming, a United States real property holding corporation for U.S. federal income tax purposes.

### **Federal Estate Tax**

Class A common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

### **Information Reporting and Backup Withholding**

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder, and the payor does not have actual knowledge or reason to know that such holder is a U.S. person, or such holder otherwise establishes an exemption.

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Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our Class A common stock within the United States or conducted through U.S.-related financial intermediaries unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder, and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person, or such owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated \_\_\_\_\_, 2004, the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC and Citigroup Global Markets Inc. are acting as representatives, the following respective numbers of shares of common stock:

<u>Underwriter</u>	<u>Number of Shares</u>
Credit Suisse First Boston LLC	
Citigroup Global Markets Inc.	
Goldman, Sachs & Co.	
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Bear, Stearns & Co. Inc.	
<b>Total</b>	<b>15,000,000</b>

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

Some of the selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 2,250,000 additional outstanding shares from them at the offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$ \_\_\_\_\_ per share. The underwriters and selling group members may allow a discount of \$ \_\_\_\_\_ per share on sales to other broker/dealers. After the offering, the representatives may change the offering price and concession and discount to broker/dealers.

The following table summarizes the compensation the selling stockholders will pay and estimated expenses we will pay:

<u>Per Share</u>		<u>Total</u>	
<u>Without Over-allotment</u>	<u>With Over-allotment</u>	<u>Without Over-allotment</u>	<u>With Over-allotment</u>

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Underwriting discounts and commissions paid by the selling stockholders	\$	\$	\$	\$
Expenses payable by us	\$	\$	\$	\$

The expenses of the offering, not including the underwriting discounts and commissions, are estimated at \$750,000 and are payable by us.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, relating to any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus, subject to specified exemptions.

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The selling stockholders, which together will beneficially own approximately 36.7% of our outstanding Class A common stock immediately after the offering, have agreed, subject to certain exceptions, that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus.

Each of the underwriters has represented to us and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any of the shares of our common stock directly or indirectly, or distribute this prospectus or any other offering material relating to such shares, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the underwriting agreement.

In particular, each underwriter has represented to us and agreed that:

it has not offered or sold, and, prior to the expiration of the period of six months from the closing date for the issue of the shares of our common stock, will not offer or sell any shares of our common stock to persons in the United Kingdom, except to those persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

it has complied, and will comply, with all applicable provisions of the Financial Services Act 1986 and all applicable provisions of the Financial Services and Markets Act 2000, or the FSMA, with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom;

it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity, within the meaning of the FSMA, received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and

the shares of our common stock may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution, or at any time thereafter, directly or indirectly, other than to banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational institutions and other comparable entities, including, among others, treasuries and finance companies of large enterprises, which trade or invest in securities in the course of a profession or trade. Individuals or legal entities who or which do not trade or invest in securities in the course of their profession or trade may not participate in the offering, and this prospectus or any other offering material relating to the shares may not be considered an offer or the prospect of an offer to sell or exchange the shares of common stock.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our common stock is listed on the New York Stock Exchange under the symbol CBG.

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Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and our affiliates in the ordinary course of business, for which they received, or will receive, customary fees and

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expenses. In particular, Credit Suisse First Boston, an affiliate of Credit Suisse First Boston LLC, serves as the administrative agent and collateral agent for, and is a lender under, our senior secured credit facilities. See the information under the heading titled "Description of Certain Long-Term Indebtedness" for additional information regarding the terms of this indebtedness. As of October 31, 2004, affiliates of Credit Suisse First Boston LLC also are the lenders with respect to 5.37% of the term loan under our amended and restated credit agreement. In addition, as of October 31, 2004, affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,420,656 shares, or approximately 2.0%, of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling a portion of their shares in the offering and will beneficially own approximately 1.1% of our common stock after the offering. See the information under the heading titled "Principal and Selling Stockholders" for additional information regarding their beneficial ownership.

Bear, Stearns & Co. Inc. acted as financial advisor to the special committee of Insignia's board of directors in connection with our acquisition of Insignia in July 2003 and received customary fees and expenses from Insignia in such capacity.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase shares in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in the offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically by e-mail. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make



internet distributions on the same basis as other allocations.

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**LEGAL MATTERS**

The validity of the shares of common stock being offered by the selling stockholders in the offering will be passed upon for us by Simpson Thacher & Bartlett LLP, Palo Alto, California. Selected legal matters in connection with the offering will be passed upon for the underwriters by Cravath, Swaine & Moore LLP, New York, New York.

**EXPERTS**

The consolidated financial statements and the related financial statement schedules of CB Richard Ellis Group, Inc. as of and for the years ended December 31, 2003 and 2002 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion and includes explanatory paragraphs referring to the adoption of Statement of Financial Accounting Standards No. 142 effective January 1, 2002 and concerning the application of procedures relating to certain disclosures and revisions of financial statement amounts related to the 2001 financial statements that were audited by other auditors who have ceased operations and for which Deloitte & Touche LLP expressed no opinion or other form of assurance other than with respect to such disclosures and revisions), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of CB Richard Ellis Group, Inc. for the period from February 20 (inception) to December 31, 2001 and the financial statements of CB Richard Ellis Services, Inc. for the period from January 1, 2001 through July 20, 2001 included in this prospectus were audited by Arthur Andersen LLP, independent public accountants. See the information under the heading titled Risk Factors Risks Relating to the Offering and Ownership of Our Common Stock Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited.

The consolidated financial statements of Insignia Financial Group, Inc. as of and for the year ended December 31, 2002 have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, which report refers to changes in accounting principles relating to the adoption of the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 and the adoption of the accounting principles set forth in Statements of Financial Accounting Standards Nos. 141 and 142 effective January 1, 2002, and upon the authority of said firm as experts in accounting and auditing.

The consolidated statements of operations, stockholders' equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001 appearing in this prospectus and the registration statement to which it forms a part have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and is included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**CHANGE IN ACCOUNTANTS**

On April 23, 2002, we dismissed our independent auditors, Arthur Andersen LLP, and engaged the services of Deloitte & Touche LLP as our new independent auditors for the fiscal year ended December 31, 2002. Our board of directors and our audit committee authorized the dismissal of Arthur Andersen LLP and the engagement of Deloitte & Touche LLP.

Arthur Andersen LLP's reports on CB Richard Ellis Group's consolidated financial statements for the fiscal years ended December 31, 2001 and 2000 and for the period from CB Richard Ellis Group's inception through the date of Arthur Andersen LLP's dismissal did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

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During the period from CB Richard Ellis Group's inception through the date of Arthur Andersen's dismissal, there were no (1) disagreements with Arthur Andersen LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to Arthur Andersen LLP's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its report on CB Richard Ellis Group's consolidated financial statements or (2) reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On April 8, 2002, Ernst & Young was dismissed as Insignia's principal independent accountant and, effective April 11, 2002, KPMG was retained as its principal independent accountant. The reports of Ernst & Young on Insignia's financial statements for the years ended December 31, 2001 and December 31, 2000 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change accountants was recommended by Insignia's audit committee and approved by Insignia's board of directors.

During the years ended December 31, 2001 and December 31, 2000 and through April 8, 2002, there were no disagreements with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young, would have caused it to make reference thereto in its reports on the financial statements for such periods.

## **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, which includes amendments and exhibits, under the Securities Act of 1933 and the rules and regulations under the Securities Act, for the registration of the common stock being offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the SEC. For further information with respect to us and the common stock offered by this prospectus, please refer to the registration statement.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The registration statements and other reports, proxy statements and other information can be inspected, and copies may be obtained, at the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Information on the operation of the Public Reference Room of the SEC may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information that we have filed electronically with the SEC.

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	<b>September 30, 2004</b>	<b>December 31, 2003</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 147,925	\$ 163,881
Restricted cash	10,614	14,899
Receivables, less allowance for doubtful accounts of \$15,557 and \$16,181 at September 30, 2004 and December 31, 2003, respectively	276,343	322,416
Warehouse receivable	111,840	230,790
Prepaid expenses	24,308	22,854
Deferred tax assets, net	62,832	57,681
Other current assets	41,539	26,461
	<u>675,401</u>	<u>838,982</u>
Total Current Assets	675,401	838,982
Property and equipment, net	128,076	113,569
Goodwill	830,723	819,558
Other intangible assets, net of accumulated amortization of \$89,113 and \$73,449 at September 30, 2004 and December 31, 2003, respectively	117,295	131,731
Deferred compensation assets	79,461	76,389
Investments in and advances to unconsolidated subsidiaries	83,537	68,361
Deferred tax assets, net	30,636	32,179
Other assets, net	62,218	132,712
	<u>2,007,347</u>	<u>2,213,481</u>
Total Assets	\$ 2,007,347	\$ 2,213,481
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 170,130	\$ 189,787
Compensation and employee benefits payable	156,233	148,874
Accrued bonus and profit sharing	143,585	200,343
Short-term borrowings:		
Warehouse line of credit	111,840	230,790
Other	26,396	39,347
	<u>138,236</u>	<u>270,137</u>
Total short-term borrowings	138,236	270,137
Current maturities of long-term debt	13,021	11,285
Other current liabilities	13,470	12,991
	<u>634,675</u>	<u>833,417</u>
Total Current Liabilities	634,675	833,417
Long-Term Debt:		
11 1/4% senior subordinated notes, net of unamortized discount of \$2,397 and \$2,827 at September 30, 2004 and December 31, 2003, respectively	204,972	226,173
Senior secured term loan	268,200	287,500
9 3/4% senior notes	130,000	200,000
16% senior notes, net of unamortized discount of \$2,844 at December 31, 2003		35,472
Other long-term debt	877	42,275
	<u>877</u>	<u>42,275</u>

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Total Long-Term Debt	604,049	791,420
Deferred compensation liability	146,709	138,037
Pension liability	36,565	35,998
Other liabilities	100,434	75,024
	<u>          </u>	<u>          </u>
Total Liabilities	1,522,432	1,873,896
Minority interest	6,667	6,656
Commitments and contingencies		
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 70,195,909 and 7,176,396 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	702	72
Class B common stock; \$0.01 par value; 100,000,000 shares authorized; 53,409,556 shares issued and outstanding at December 31, 2003; no shares authorized, issued or outstanding at September 30, 2004		534
Additional paid-in capital	509,288	359,334
Notes receivable from sale of stock	(5,058)	(4,680)
Accumulated (deficit) earnings	(259)	1,449
Accumulated other comprehensive loss	(26,425)	(23,780)
	<u>          </u>	<u>          </u>
Total Stockholders' Equity	478,248	332,929
	<u>          </u>	<u>          </u>
Total Liabilities and Stockholders' Equity	\$ 2,007,347	\$ 2,213,481
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Revenue	\$ 574,999	\$ 423,376	\$ 1,566,907	\$ 1,008,817
Costs and expenses:				
Cost of services	300,711	207,820	797,544	484,485
Operating, administrative and other	213,226	180,676	643,016	444,272
Depreciation and amortization	12,340	41,071	40,001	53,571
Merger-related charges	4,040	16,485	25,574	19,795
Operating income (loss)	44,682	(22,676)	60,772	6,694
Equity income from unconsolidated subsidiaries	4,826	2,318	10,120	9,182
Interest income	672	1,373	2,303	2,624
Interest expense	14,919	21,000	52,138	51,739
Loss on extinguishment of debt	17,066	6,840	21,075	6,840
Income (loss) before provision (benefit) for income taxes	18,195	(46,825)	(18)	(40,079)
Provision (benefit) for income taxes	6,300	(18,380)	1,690	(15,459)
Net income (loss)	\$ 11,895	\$ (28,445)	\$ (1,708)	\$ (24,620)
Basic income (loss) per share	\$ 0.17	\$ (0.49)	\$ (0.03)	\$ (0.52)
Weighted average shares outstanding for basic income (loss) per share	71,446,359	57,486,405	66,006,231	46,995,364
Diluted income (loss) per share	\$ 0.16	\$ (0.49)	\$ (0.03)	\$ (0.52)
Weighted average shares outstanding for diluted income (loss) per share	75,184,418	57,486,405	66,006,231	46,995,364

The accompanying notes are an integral part of these consolidated financial statements.



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## CB RICHARD ELLIS GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,708)	\$ (24,620)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,001	53,571
Amortization and write-off of deferred financing costs	10,094	10,176
Amortization and write-off of long-term debt discount	3,274	378
Deferred compensation deferrals	12,764	7,836
Write-off of impaired investments	2,990	
Gain on sale of servicing rights, property held for sale and other assets	(5,789)	(3,417)
Equity income from unconsolidated subsidiaries	(10,120)	(9,182)
Provision for doubtful accounts	2,304	3,598
Deferred income tax benefit	(190)	(13,600)
Decrease in receivables	37,465	23,253
Increase in deferred compensation assets	(3,072)	(6,435)
Decrease (increase) in prepaid expenses and other assets	14,172	(14,237)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(41,843)	(45,269)
Decrease in accounts payable and accrued expenses	(22,185)	(22,089)
Decrease in income tax payable	(7,861)	(29,134)
Increase (decrease) in other liabilities	6,946	(1,540)
Other operating activities, net	1,363	(3)
Net cash provided by (used in) operating activities	38,605	(70,714)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of servicing rights and other assets	5,607	1,922
Proceeds from sale of property held for sale	50,401	
Capital expenditures, net of concessions received	(27,455)	(8,185)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(16,784)	(243,847)
Other investing activities, net	(2,948)	(2,574)
Net cash provided by (used in) investing activities	8,821	(252,684)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolver and swingline credit facility	186,750	152,850
Repayment of revolver and swingline credit facility	(186,750)	(152,850)
Proceeds from senior secured term loan		75,000
Repayment of senior secured term loan	(17,500)	(7,513)
Repayment of non-recourse debt related to property held for sale	(42,048)	
Repayment of notes payable		(43,000)
(Repayment of) proceeds from euro cash pool loan and other loans, net	(9,809)	3,732
Proceeds from 9 3/4% senior notes		200,000
Repayment of 9 3/4% senior notes	(70,000)	
Repayment of 11 1/4% senior subordinated notes	(21,631)	
Repayment of 16% senior notes	(38,316)	
Proceeds from issuance of common stock, net	135,000	120,580

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Proceeds from exercise of stock options	7,991	
Payment of deferred financing fees	(3,942)	(19,774)
Other financing activities, net	(1,466)	(527)
	<u>          </u>	<u>          </u>
Net cash (used in) provided by financing activities	(61,721)	328,498
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,295)</b>	<b>5,100</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>163,881</b>	<b>79,701</b>
Effect of currency exchange rate changes on cash	(1,661)	693
	<u>          </u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 147,925</b>	<b>\$ 85,494</b>
	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 56,846	\$ 31,694
	<u>          </u>	<u>          </u>
Income taxes, net of refunds	\$ 11,462	\$ 25,533
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Nature of Operations**

CB Richard Ellis Group, Inc., formerly known as CBRE Holding, Inc. (which may be referred to in this Form 10-Q as we, us, and our ), offers a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate markets globally under the CB Richard Ellis brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales; property valuation; commercial mortgage loan origination and servicing, facilities and property management; real estate investment management and real estate econometric forecasting. We generate revenues both on a per project or transaction basis and from annual management fees.

CB Richard Ellis Group, Inc. was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international real estate services firm. Prior to July 20, 2001, we were a wholly owned subsidiary of Blum Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our Company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). On July 23, 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc.

**2. Initial Public Offering**

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock (the IPO). In connection with the IPO, we issued and sold 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately \$290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately \$4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004 and July 14, 2004.

**3. Insignia Acquisition**

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On July 23, 2003, pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 28, 2003 (the Insignia Acquisition Agreement), by and among us, CBRE, Apple Acquisition Corp. (Apple Acquisition), a Delaware corporation and wholly owned subsidiary of CBRE, and Insignia Financial Group, Inc. (Insignia), Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the Insignia Acquisition and at the effective time of the Insignia Acquisition became a wholly owned subsidiary of CBRE.

The aggregate purchase price for the acquisition of Insignia was approximately \$329.5 million, which includes: (1) \$267.9 million in cash paid for shares of Insignia's outstanding common stock, at \$11.156 per share, (2) \$38.2 million in cash paid for Insignia's outstanding Series A preferred stock and Series B preferred stock at \$100.00 per share plus accrued and unpaid dividends, (3) cash payments of \$7.9 million to holders of Insignia's vested and unvested warrants and options and (4) \$15.5 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

Purchase accounting adjustments related to the Insignia Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, July 23, 2003. The final valuation of the net assets acquired was completed during the third quarter of 2004 and did not result in any significant adjustments when compared to the preliminary valuation, other than those noted below.

During the nine months ended September 30, 2004, we made the following significant adjustments to goodwill:

In the first quarter of 2004, we assigned a \$6.6 million estimated fair value to a broker draw asset acquired from Insignia. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia Acquisition and, accordingly, we are amortizing it on a straight-line basis, which best reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. The allocation of purchase price to the broker draw asset, net of related tax impact, resulted in a \$3.8 million decrease in goodwill and a related \$2.4 million increase in net loss during the nine months ended September 30, 2004, which includes a \$0.8 million first quarter 2004 adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003.

During the nine months ended September 30, 2004, we recorded a \$14.2 million increase to goodwill due to an increase in liabilities primarily related to additional lease termination costs, contract termination costs and costs associated with anticipated legal settlements. All such adjustments were recorded in accordance with the requirements of Emerging Issues Task Force (EITF) Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. As of the consummation date of the acquisition of Insignia, our management began to assess and formulate a plan to close certain Insignia locations. Due to the size of this acquisition and the dispersed nature of Insignia's operations, a significant amount of time and effort was required to finalize plans with respect to closures, analyze the provisions of contracts to be terminated and estimate the total exit costs. The adjustment during the nine months ended September 30, 2004 represents a change in estimate as we completed our assessments and finalized our plans with respect to certain of the locations.

In the first quarter of 2004, we recorded a \$4.2 million increase to goodwill related to the sale of certain assets acquired in connection with the Insignia Acquisition. Of this amount, \$3.7 million represented a receivable due from a buyer, which was collected in the second quarter of 2004. During the second and third quarter of 2004, we received additional cash for the sale of such assets as well as finalized the fair value assigned to such assets in the purchase price allocation. This resulted in an overall increase to goodwill of approximately \$2.9 million, which reflects the sale of assets at an amount less than the value assigned in the preliminary purchase price allocation. As no event occurred during the period from the acquisition date to the sale date that would have impacted the value of these assets, our management concluded that the amount at which these assets were ultimately sold represents the best estimate of the fair value of these assets at the date of the Insignia Acquisition.

During the second quarter of 2004, we finalized the fair value of liabilities assumed relating to annuities due to former equity partners of Richard Ellis Group Limited that are payable by Insignia until the times of their deaths. Our valuations of these annuities was based in part on a third-party valuation and resulted in a \$4.2 million increase in goodwill in 2004.

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During the nine months ended September 30, 2004, we recorded a reduction of \$9.2 million to goodwill related to the deferred tax impact of all purchase accounting adjustments recorded in 2004, excluding the deferred tax impact previously mentioned related to the broker draw asset.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we have accrued certain liabilities in accordance with EITF Issue No. 95-3. These liabilities assumed in connection with the Insignia Acquisition consist of the following and are included in other liabilities on the consolidated balance sheets (dollars in thousands):

	2003		Utilized	To be
	Charge To Goodwill	2004 Adjustments	To Date	Utilized
Severance	\$ 30,706	\$ (19)	\$ (23,653)	\$ 7,034
Lease termination costs	28,922	8,923	(10,152)	27,693
Change of control payments	10,451		(10,451)	
Costs associated with exiting contracts	8,921	1,519	(9,016)	1,424
Legal settlements anticipated	8,739	3,770	(3,122)	9,387
	<u>\$ 87,739</u>	<u>\$ 14,193</u>	<u>\$ (56,394)</u>	<u>\$ 45,538</u>

**4. Basis of Presentation**

The consolidated statements of operations and cash flows for the three and nine months ended September 30, 2004 include full periods of activity for Insignia. However, the consolidated statements of operations and cash flows for the three and nine months ended September 30, 2003 include the activity of Insignia from July 23, 2003, the date of the Insignia Acquisition. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our consolidated financial statements prior to the Insignia Acquisition.

Pro forma results for the three and nine months ended September 30, 2003, assuming the Insignia Acquisition had occurred as of January 1, 2003, are presented below. These pro forma results have been prepared for comparative purposes only and include adjustments, such as increased amortization expense as a result of intangible assets acquired in the Insignia Acquisition as well as higher interest expense as a result of debt incurred to finance the Insignia Acquisition. These pro forma results do not purport to be indicative of what operating results would have been had the Insignia Acquisition occurred on January 1, 2003, and may not be indicative of future operating results (dollars in thousands, except share data).

September 30, 2003

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	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
	<u>          </u>	<u>          </u>
Revenue	\$ 462,004	\$ 1,327,570
Operating income (loss)	\$ 1,968	\$ (25,238)
Net loss	\$ (15,115)	\$ (52,326)
Basic and diluted loss per share	\$ (0.24)	\$ (0.84)

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates. All significant inter-company transactions and balances have been eliminated, and certain reclassifications have been made to prior periods consolidated financial statements to conform with the current period presentation. The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2004. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our 2003 Annual Report on Form 10-K/A, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2003.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized shares of Class A common stock to 325,000,000 and the authorized shares of Class B common stock to 100,000,000. Also, on May 4, 2004, we effected a three-for-one split of our outstanding Class A common stock and Class B common stock, which split was effected by a stock dividend. In addition, on June 7, 2004, we effected a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock. The applicable share and per share data for all periods included herein have been restated to give effect to these stock splits. In connection with the completion of the IPO, all outstanding shares of Class B common stock were converted into an equal number of shares of Class A common stock. On June 16, 2004, we amended our Certificate of Incorporation to eliminate the authorized shares of Class B common stock.

**5. Stock-Based Compensation**

Prior to the fourth quarter of 2003, we accounted for our employee stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related Financial Accounting Standards Board (FASB) interpretations. Accordingly, compensation cost for employee stock options was measured as the excess, if any, of the estimated market price of our Class A common stock at the date of grant over the amount an employee was required to pay to acquire the stock.

During the fourth quarter of 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In accordance with SFAS No. 123, we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility and the expected life of the options. As our Class A common stock was not freely tradeable on a national securities exchange or an over-the-counter market prior to the completion of the IPO, an effectively zero percent volatility was utilized for all periods ending prior to the IPO. The dividend yield is excluded from the calculation, as it is our present intention to retain all earnings. The following table illustrates the effect on net income (loss) and income (loss) per share if the fair value based method had been applied to all outstanding and unvested awards in each period (dollars in thousands, except share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss) as reported	\$ 11,895	\$ (28,445)	\$ (1,708)	\$ (24,620)
Add: Stock-based employee compensation expense included in reported net income (loss), net of the related tax effect	114		220	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of the related tax effect	(310)	(205)	(697)	(498)
Pro forma net income (loss)	\$ 11,699	\$ (28,650)	\$ (2,185)	\$ (25,118)
Basic income (loss) per share:				
As reported	\$ 0.17	\$ (0.49)	\$ (0.03)	\$ (0.52)
Pro forma	\$ 0.16	\$ (0.50)	\$ (0.03)	\$ (0.53)
Diluted income (loss) per share:				
As reported	\$ 0.16	\$ (0.49)	\$ (0.03)	\$ (0.52)
Pro forma	\$ 0.16	\$ (0.50)	\$ (0.03)	\$ (0.53)

The weighted average fair value of options granted by us was \$8.07 and \$0.53 for the three months ended September 30, 2004 and 2003, respectively, and \$8.05 and \$0.58 for the nine months ended September 30, 2004 and 2003, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

Three Months Ended September 30,	Nine Months Ended September 30,
-------------------------------------	------------------------------------

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	2004	2003	2004	2003
Risk-free interest rate	3.20%	2.74%	3.20%	3.03%
Expected volatility	40.00%	0.00%	30.00%	0.00%
Expected life	4 years	5 years	4 years	5 years

Option valuation models require the input of subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, we do not believe that the Black-Scholes model necessarily provides a reliable single measure of the fair value of our employee stock options.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**6. Fair Value of Financial Instruments**

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

*Cash and Cash Equivalents and Restricted Cash:* This balance includes cash and cash equivalents with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

*Receivables:* Due to their short-term nature, fair value approximates carrying value.

*Warehouse Receivable:* Due to their short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of the funded mortgage loans and generally reflects the value of the Residential Funding Corporation (RFC) warehouse line of credit outstanding (see Note 11).

*Short-Term Borrowings:* The majority of this balance represents the warehouse line of credit. Due to their short-term maturities and variable interest rates, fair value approximates carrying value (See Note 11).

*11 1/4% Senior Subordinated Notes:* Based on dealers' quotes, the estimated fair value of the 11 1/4% senior subordinated notes is \$238.5 million and \$256.5 million at September 30, 2004 and December 31, 2003, respectively. Their actual carrying value totaled \$205.0 million and \$226.2 million at September 30, 2004 and December 31, 2003, respectively (See Note 11).

*9 3/4% Senior Notes:* Based on dealers' quotes, the estimated fair value of the 9 3/4% senior notes is \$148.2 million and \$222.0 million at September 30, 2004 and December 31, 2003, respectively. Their actual carrying value totaled \$130.0 million and \$200.0 million at September 30, 2004 and December 31, 2003, respectively. (See Note 11).

*Senior Secured Terms Loans & Other Long-Term Debt:* Estimated fair values approximate respective carrying values because a substantial majority of these instruments are based on variable interest rates (see Note 11).

**7. Restricted Cash**

Included in the accompanying consolidated balance sheets as of September 30, 2004 and December 31, 2003, is restricted cash of \$10.6 million and \$14.9 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the United Kingdom (U.K.). The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for us and each of our segments (See Note 19 for a description of our segments) for the nine months ended September 30, 2004 are as follows (dollars in thousands):

	<u>Americas</u>	<u>EMEA</u>	<u>Asia Pacific</u>	<u>Total</u>
Balance at January 1, 2004	\$ 598,439	\$ 217,106	\$ 4,013	\$ 819,558
Purchase accounting adjustments related to acquisitions	6,177	1,124	3,864	11,165
Balance at September 30, 2004	<u>\$ 604,616</u>	<u>\$ 218,230</u>	<u>\$ 7,877</u>	<u>\$ 830,723</u>

Other intangible assets totaled \$117.3 million and \$131.7 million, net of accumulated amortization of \$89.1million and \$73.4 million, as of September 30, 2004 and December 31, 2003, respectively, and are comprised of the following (dollars in thousands):

	<u>As of September 30, 2004</u>		<u>As of December 31, 2003</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
<b>Unamortizable intangible assets</b>				
Trademarks	\$ 63,700		\$ 63,700	
Trade name	19,826		19,826	
	<u>\$ 83,526</u>		<u>\$ 83,526</u>	
<b>Amortizable intangible assets</b>				
Backlog	\$ 72,149	\$ (69,355)	\$ 72,503	\$ (59,108)
Management contracts	25,731	(12,287)	25,649	(9,708)
Loan servicing rights	19,194	(5,254)	17,694	(3,812)
Other	5,808	(2,217)	5,808	(821)
	<u>\$ 122,882</u>	<u>\$ (89,113)</u>	<u>\$ 121,654</u>	<u>\$ (73,449)</u>

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Total intangible assets	\$ 206,408	\$ (89,113)	\$ 205,180	\$ (73,449)
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In accordance with SFAS No. 141, *Business Combinations*, trademarks of \$63.7 million were separately identified as a result of the 2001 Merger. As a result of the Insignia Acquisition, a \$19.8 million trade name was separately identified, which represents the Richard Ellis trade name in the U.K. that is owned by Insignia. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

Backlog represents the fair value of Insignia's net revenue backlog as of July 23, 2003, which was acquired as part of the Insignia Acquisition. The backlog consists of the net commissions receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia Acquisition. This intangible asset is being amortized as cash is received or upon final closing of these pending transactions.

Management contracts are primarily comprised of property management contracts in the United States (U.S.), the U.K., France and other European operations, as well as valuation services and fund management contracts in the U.K. These management contracts are being amortized over estimated useful lives of up to ten years.

Loan servicing rights represent the fair value of servicing assets in our mortgage banking line of business in the U.S., the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over estimated useful lives of up to ten years.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Other amortizable intangible assets represent other intangible assets acquired as a result of the Insignia Acquisition including an intangible asset recognized for other non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France. These other intangible assets are being amortized over estimated useful lives of up to 20 years.

Amortization expense related to intangible assets was \$4.3 million and \$32.5 million for the three months ended September 30, 2004 and 2003, respectively, and \$15.6 million and \$34.4 million for the nine months ended September 30, 2004 and 2003, respectively. The estimated annual amortization expense for each of the years ended December 31, 2004 through December 31, 2008 approximates \$20.7 million, \$6.7 million, \$5.3 million, \$4.5 million and \$3.8 million, respectively.

**9. Investments in and Advances to Unconsolidated Subsidiaries**

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting. Combined condensed financial information for these entities is as follows (dollars in thousands):

Condensed Balance Sheets Information:

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
Current assets	\$ 211,151	\$ 208,743
Non current assets	\$ 2,845,552	\$ 2,040,138
Current liabilities	\$ 284,151	\$ 154,778
Non current liabilities	\$ 1,309,935	\$ 969,993
Minority interest	\$ 6,783	\$ 4,600

Condensed Statements of Operations Information:

<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>



Net revenue	\$ 168,126	\$ 116,516	\$ 404,460	\$ 319,328
Operating income	\$ 37,601	\$ 31,296	\$ 93,136	\$ 87,046
Net income	\$ 51,039	\$ 31,135	\$ 125,138	\$ 78,922

Our investment management business involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage and other professional services to these equity investees on an arm's length basis and earned revenues from these unconsolidated subsidiaries of \$4.8 million and \$6.8 million for the three months ended September 30, 2004 and 2003, respectively, and \$16.8 million and \$17.3 million for the nine months ended September 30, 2004 and 2003, respectively.

#### 10. Employee Benefit Plans

On September 22, 2004, pursuant to our 2004 Stock Incentive Plan, certain employees were granted 1,245,000 options to acquire Class A common stock at an exercise price of \$22.39 per share. These options vest and are exercisable in 25% increments over a four-year period and expire on September 22, 2009.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**11. Debt**

Since 2001, we have maintained a credit agreement with Credit Suisse First Boston (CSFB) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our IPO, we completed the refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement (the Credit Agreement), which became effective in connection with such refinancing.

Our Credit Agreement permitted us, among other things, to use the net proceeds received from our IPO to pay down debt, including the redemptions in July 2004 of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010, and the prepayment of \$15.0 million in principal amount of our term loan under our Credit Agreement, which prepayment occurred on June 15, 2004.

Our Credit Agreement includes the following: (1) a term loan facility of \$295.0 million (of which \$280.0 million was outstanding as of September 30, 2004), requiring quarterly principal payments of \$2.95 million beginning December 31, 2004 through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$150.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on March 31, 2009. Our Credit Agreement also permits us to make additional borrowings under the term loan facility of up to \$25.0 million, subject to the satisfaction of customary conditions.

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.25% to 2.50% or the alternate base rate plus 1.25% to 1.50%, in both cases as determined by reference to the credit rating assigned to the term facility by Moody's Investors Service and Standard & Poor's. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the Credit Agreement, at a higher or lower rate. During June 2004, we used a portion of the net proceeds we received from the IPO to prepay \$15.0 million in principal amount of our term loan facility. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$280.0 million and \$297.5 million as of September 30, 2004 and December 31, 2003, respectively.

Borrowings under the revolving credit facility bear interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of September 30, 2004 and December 31, 2003 we had no revolving credit facility principal outstanding. As of September 30, 2004, letters of credit totaling \$24.3 million were outstanding, which letters of credit primarily relate to our subsidiaries' outstanding indebtedness and operating leases and reduce the amount we may borrow under the revolving credit facility.

Borrowings under the Credit Agreement are jointly and severally guaranteed by us and substantially all of our domestic subsidiaries and are secured by a pledge of substantially all of our assets. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of the unused revolving credit facility commitment.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued \$200.0 million in aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9<sup>3</sup>/<sub>4</sub>% senior notes in connection with the Insignia Acquisition. The 9<sup>3</sup>/<sub>4</sub>% senior notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE's current and future secured indebtedness. The 9<sup>3</sup>/<sub>4</sub>% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on May 15 and November 15. The 9<sup>3</sup>/<sub>4</sub>% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9<sup>3</sup>/<sub>4</sub>% senior notes at 109<sup>3</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem \$70.0 million in aggregate principal amount, or 35%, of our 9<sup>3</sup>/<sub>4</sub>% senior notes, which also required the payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off \$3.1 million of unamortized deferred financing costs in connection with this redemption. In the event of a change of control (as defined in the indenture governing our 9<sup>3</sup>/<sub>4</sub>% senior notes), we are obligated to make an offer to purchase the 9<sup>3</sup>/<sub>4</sub>% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9<sup>3</sup>/<sub>4</sub>% senior notes included in the accompanying consolidated balance sheets was \$130.0 million and \$200.0 million as of September 30, 2004 and December 31, 2003, respectively.

In June 2001, in connection with the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CBRE assumed all obligations with respect to the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in connection with the 2001 Merger. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes are unsecured senior subordinated obligations of CBRE and rank equally in right of payment with any of CBRE's existing and future unsecured senior subordinated indebtedness but are subordinated to any of CBRE's existing and future senior indebtedness. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111<sup>1</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes), we are obligated to make an offer to purchase the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 2004, we repurchased \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market. We paid an aggregate of \$3.1 million of premiums and wrote off \$0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. The amount of the 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$205.0 million and \$226.2 million as of September 30, 2004 and December 31, 2003, respectively.

Also, to partially fund the acquisition of CBRE in 2001, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes were unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrued at a rate of 16.0% per year and was payable quarterly in arrears. Under the terms of the indenture governing the 16% senior notes and subject to the restrictions set forth in the Credit Agreement, the notes were redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

at declining prices thereafter. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem the remaining \$38.3 million in aggregate principal amount of our 16% senior notes, which also required the payment of a \$2.5 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount in connection with this redemption. The amount of the 16% senior notes included in the accompanying consolidated balance sheet, net of unamortized discount was \$35.5 million as of December 31, 2003.

Our Credit Agreement and the indentures governing our 9<sup>3</sup>/<sub>4</sub>% senior notes and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

A joint venture that we have consolidated since 2001 incurred non-recourse debt to acquire a real estate investment in Japan in 2001. This debt was secured by a mortgage on the acquired real estate asset. During August 2004, the joint venture completed the sale of this real estate asset and utilized the proceeds from the sale to repay all of the related non-recourse debt, plus accrued interest and other fees. In our accompanying consolidated balance sheet, this debt comprised \$2.0 million of our other short-term borrowings and \$41.8 million of our other long-term debt as of December 31, 2003.

We had short-term borrowings of \$138.2 million and \$270.1 million with weighted average interest rates of 3.4% and 2.7% as of September 30, 2004 and December 31, 2003, respectively.

Our wholly owned subsidiary, L.J. Melody & Company (L.J. Melody), has a credit agreement with RFC for the purpose of funding mortgage loans that will be resold. On August 19, 2004, we entered into a Third Amendment to the Fourth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit). The current agreement provides for a warehouse line of credit of up to \$250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on December 1, 2004. During the quarter ended September 30, 2004, we had a maximum of \$244.6 million warehouse line of credit principal outstanding with RFC. As of September 30, 2004 and December 31, 2003, we had a \$111.8 million and a \$230.8 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had \$111.8 million and \$230.8 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased, as of September 30, 2004 and December 31, 2003, respectively, which are also included in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995, we issued approximately \$20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2003. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and

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June 30, 2010. During the year ended December 31, 2002, all of the Westmark senior notes bore interest at 9.0%. On January 1, 2003, the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our Credit Agreement. On January 1, 2005, the interest rate on all of the other Westmark senior notes will be adjusted to equal the interest rate then in effect with respect to amounts outstanding under our Credit Agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$12.1 million as of September 30, 2004 and December 31, 2003.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the U.K. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of September 30, 2004 and December 31, 2003, \$9.7 million and \$12.2 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. The amount of the Euro cash pool loan included in short-term borrowings in the accompanying consolidated balance sheets was \$3.5 million and \$11.5 million as of September 30, 2004 and December 31, 2003, respectively.

**12. Commitments and Contingencies**

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any liability imposed upon us that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC (Island) on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of September 30, 2004, an aggregate of approximately \$5.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$2.9 million as security for Island's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island.

L.J. Melody previously executed an agreement with the Federal National Mortgage Association (Fannie Mae) to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and L.J. Melody retains the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$85.8 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$0.9 million. The other 1% is covered in the form of a guarantee to

Fannie Mae by L.J. Melody.

We had letters of credit totaling \$6.1 million as of September 30, 2004, excluding letters of credit related to our subsidiaries' outstanding indebtedness and operating leases. Approximately \$5.2 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island described above. The remaining

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

\$0.9 million outstanding letter of credit is the Fannie Mae letter of credit described above. The outstanding letters of credit as of September 30, 2004 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$5.1 million as of September 30, 2004, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae discussed above. Approximately \$1.2 million of the guarantees are related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island purchase agreement expired on the September 15, 2004 maturity date of the underlying loan agreement, however, similar loan terms are expected to be renewed, modified or extended upon the completion of on-going negotiations. Currently, renewals, modifications and extensions of such loan may be made without our consent, but the Insignia \$1.3 million amount of our guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension. The guarantee obligation related to the agreement with Fannie Mae discussed above will expire in December 2004.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of September 30, 2004 we had committed \$41.7 million to fund future co-investments. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

**13. Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

The following table provides a summary of comprehensive income (loss) (dollars in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net income (loss)	\$ 11,895	\$ (28,445)	\$ (1,708)	\$ (24,620)

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Foreign currency translation gain (loss)	156	4,548	(2,645)	1,274
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Comprehensive income (loss)	\$ 12,051	\$ (23,897)	\$ (4,353)	\$ (23,346)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 14. Earnings (Loss) Per Share Information

Earnings (loss) per share (EPS) is accounted for in accordance with SFAS No. 128, *Earnings Per Share*. Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period. Where appropriate, the computation of diluted EPS further assumes the dilutive effect of potential common shares, which include stock options, stock warrants and certain contingently issuable shares. Contingently issuable shares represent unvested stock fund units in the deferred compensation plan. The following is a calculation of the earnings (loss) per share (dollars in thousands, except share data):

	Three Months Ended September 30,					
	2004			2003		
	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount
<b>Basic earnings (loss) per share:</b>						
Net income (loss) applicable to common stockholders	\$ 11,895	71,446,359	\$ 0.17	\$ (28,445)	57,486,405	\$ (0.49)
<b>Diluted earnings (loss) per share:</b>						
Net income (loss) applicable to common stockholders	\$ 11,895	71,446,359		\$ (28,445)	57,486,405	
Dilutive effect of contingently issuable shares		1,184,170				
Dilutive effect of incremental stock options		2,553,889				
Net income (loss) applicable to common stockholders	\$ 11,895	75,184,418	\$ 0.16	\$ (28,445)	57,486,405	\$ (0.49)
<b>Basic and diluted loss per share:</b>						
Net loss applicable to common stockholders	\$ (1,708)	66,006,231	\$ (0.03)	\$ (24,620)	46,995,364	\$ (0.52)

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Options to purchase 1,245,000 shares of Class A common stock granted during the three months ended September 30, 2004, however, were not included in the computation of diluted EPS for the three months ended September 30, 2004 as the options' exercise price was greater than the average market price of the Class A common shares during the period.

As a result of operating losses incurred for the three months ended September 30, 2003 and the nine months ended September 30, 2004 and 2003, dilutive weighted average shares outstanding did not give effect to potential common shares, as to do so would have been anti-dilutive.

### **15. Fiduciary Funds**

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which amounted to \$661.7 million and \$626.3 million at September 30, 2004 and December 31, 2003, respectively.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****16. Pensions**

Net periodic pension cost consisted of the following (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Service cost	\$ 1,808	\$ 1,672	\$ 4,938	\$ 4,510
Interest cost	2,791	2,230	8,409	5,014
Expected return on plan assets	(3,170)	(2,246)	(9,477)	(5,421)
Amortization of prior service costs	(85)		(191)	
Amortization of unrecognized net gain	274	504	1,109	1,498
<b>Net periodic pension cost</b>	<b>\$ 1,618</b>	<b>\$ 2,160</b>	<b>\$ 4,788</b>	<b>\$ 5,601</b>

We contributed an additional \$1.5 million and \$3.8 million to fund our pension plans during the three and nine months ended September 30, 2004. We expect to contribute a total of \$4.9 million to fund our pension plans for the year ended December 31, 2004.

**17. Merger-Related Charges**

We recorded merger-related charges of \$4.0 million and \$25.6 million for the three and nine months ended September 30, 2004, respectively, and \$16.5 million and \$19.8 million for the three and nine months ended September 30, 2003, all in connection with the Insignia Acquisition. These charges primarily related to the exit of facilities that were occupied by us prior to the Insignia Acquisition as well as the termination of employees, both of which became duplicative as a result of the Insignia Acquisition. We recorded charges for the exit of these facilities as premises were vacated and for redundant employees as these employees were terminated, both in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Additionally, we recorded consulting costs, which represented fees paid to outside parties for nonrecurring services relating to the combination of Insignia's financial systems and businesses with ours. Our merger-related charges consisted of the following (dollars in thousands):

2003

2004

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	<u>Charges</u>	<u>Charges</u>	<u>Utilized To Date</u>	<u>To be Utilized</u>
Lease termination costs	\$ 15,805	\$ 19,643	\$ (6,625)	\$ 28,823
Severance	7,042	2,215	(9,257)	
Change of control payments	6,525		(6,525)	
Consulting costs	2,738	1,888	(4,626)	
Other	4,707	1,828	(6,535)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total merger-related charges	\$ 36,817	\$ 25,574	\$ (33,568)	\$ 28,823
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**18. Guarantor and Nonguarantor Financial Statements**

The 9<sup>3/4</sup>% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11<sup>1/4</sup>% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. (See Note 11 to the consolidated financial statements for additional information on the 9<sup>3/4</sup>% senior notes and the 11<sup>1/4</sup>% senior subordinated notes).

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of September 30, 2004 and December 31, 2003; condensed consolidating statements of operations for the three and nine months ended September 30, 2004 and 2003; and condensed consolidating statements of cash flows for the nine months ended September 30, 2004 and 2003, of (a) CB Richard Ellis Group as the parent, (b) CBRE as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CB Richard Ellis Group on a consolidated basis; and

(2) Elimination entries necessary to consolidate CB Richard Ellis Group as the parent, with CBRE and its guarantor and nonguarantor subsidiaries.

Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and inter-company balances and transactions. The purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. The condensed consolidated balance sheet as of September 30, 2004 reflects the allocation of goodwill based upon the final valuation of the net assets acquired, which valuation was completed during the third quarter of 2004. As a result, the condensed consolidated balance sheet as of December 31, 2003, reflects the allocation of goodwill based upon the estimated fair value of Insignia's acquired reporting units as of that date (See Note 3 to the consolidated financial statements for additional information).

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF SEPTEMBER 30, 2004****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 54	\$ 2,315	\$ 126,066	\$ 19,490	\$	\$ 147,925
Restricted cash			10,162	452		10,614
Receivables, less allowance for doubtful accounts	20	6	115,451	160,866		276,343
Warehouse receivable (a)			111,840			111,840
Prepaid expenses and other current assets	84,273	804	21,064	22,538		128,679
<b>Total Current Assets</b>	<b>84,347</b>	<b>3,125</b>	<b>384,583</b>	<b>203,346</b>		<b>675,401</b>
Property and equipment, net			81,512	46,564		128,076
Goodwill			578,539	252,184		830,723
Other intangible assets, net			91,779	25,516		117,295
Deferred compensation assets		79,461				79,461
Investments in and advances to unconsolidated subsidiaries		5,551	62,068	15,918		83,537
Investments in consolidated subsidiaries	306,782	154,734	146,379		(607,895)	
Inter-company loan receivable	69,953	813,720			(883,673)	
Deferred tax assets, net	30,636					30,636
Other assets, net		26,841	29,095	6,282		62,218
<b>Total Assets</b>	<b>\$ 491,718</b>	<b>\$ 1,083,432</b>	<b>\$ 1,373,955</b>	<b>\$ 549,810</b>	<b>\$ (1,491,568)</b>	<b>\$ 2,007,347</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$	\$ 14,969	\$ 77,180	\$ 77,981	\$	\$ 170,130
Compensation and employee benefits payable			102,464	53,769		156,233
Accrued bonus and profit sharing			86,508	57,077		143,585
<b>Short-term borrowings:</b>						
Warehouse line of credit (a)			111,840			111,840
Other			22,754	3,642		26,396
<b>Total short-term borrowings</b>			<b>134,594</b>	<b>3,642</b>		<b>138,236</b>
Current maturities of long-term debt		11,800	1,028	193		13,021
Other current liabilities	13,470					13,470
<b>Total Current Liabilities</b>	<b>13,470</b>	<b>26,769</b>	<b>401,774</b>	<b>192,662</b>		<b>634,675</b>
<b>Long-Term Debt:</b>						
11 1/4% senior subordinated notes, net of unamortized discount		204,972				204,972
Senior secured term loan		268,200				268,200
9 3/4% senior notes		130,000				130,000



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Inter-company loan payable			748,699	134,974	(883,673)	
Other long-term debt			330	547		877
<b>Total Long-Term Debt</b>		603,172	749,029	135,521	(883,673)	604,049
Deferred compensation liability		146,709				146,709
Other liabilities			68,418	68,581		136,999
<b>Total Liabilities</b>	13,470	776,650	1,219,221	396,764	(883,673)	1,522,432
Minority interest				6,667		6,667
Commitments and contingencies						
Stockholders' Equity	478,248	306,782	154,734	146,379	(607,895)	478,248
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 491,718</b>	<b>\$ 1,083,432</b>	<b>\$ 1,373,955</b>	<b>\$ 549,810</b>	<b>\$ (1,491,568)</b>	<b>\$ 2,007,347</b>

- (a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9<sup>3</sup>/<sub>4</sub>% senior notes and 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes, all warehouse receivables funded under the RFC line of credit are pledged to RFC, and accordingly are not included as collateral for these notes or our other outstanding debt.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2003****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,008	\$ 17	\$ 148,752	\$ 12,104	\$	\$ 163,881
Restricted cash			12,545	2,354		14,899
Receivables, less allowance for doubtful accounts	27	18	114,215	208,156		322,416
Warehouse receivable (a)			230,790			230,790
Prepaid expenses and other current assets	63,557	42,151	18,957	22,998	(40,667)	106,996
<b>Total Current Assets</b>	<b>66,592</b>	<b>42,186</b>	<b>525,259</b>	<b>245,612</b>	<b>(40,667)</b>	<b>838,982</b>
Property and equipment, net			66,280	47,289		113,569
Goodwill			572,376	247,182		819,558
Other intangible assets, net			101,326	30,405		131,731
Deferred compensation assets		76,389				76,389
Investments in and advances to unconsolidated subsidiaries		4,973	50,732	12,656		68,361
Investments in consolidated subsidiaries	321,451	252,399	199,393		(773,243)	
Inter-company loan receivable		787,009			(787,009)	
Deferred tax assets, net	32,179					32,179
Other assets, net	2,555	27,819	44,779	57,559		132,712
<b>Total Assets</b>	<b>\$ 422,777</b>	<b>\$ 1,190,775</b>	<b>\$ 1,560,145</b>	<b>\$ 640,703</b>	<b>\$ (1,600,919)</b>	<b>\$ 2,213,481</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,187	\$ 7,614	\$ 64,392	\$ 116,594	\$	\$ 189,787
Inter-company payable	40,667				(40,667)	
Compensation and employee benefits payable			98,160	50,714		148,874
Accrued bonus and profit sharing			112,365	87,978		200,343
<b>Short-term borrowings:</b>						
Warehouse line of credit (a)			230,790			230,790
Other			25,480	13,867		39,347
<b>Total short-term borrowings</b>			<b>256,270</b>	<b>13,867</b>		<b>270,137</b>
Current maturities of long-term debt		10,000	1,029	256		11,285
Other current liabilities	12,522			469		12,991
<b>Total Current Liabilities</b>	<b>54,376</b>	<b>17,614</b>	<b>532,216</b>	<b>269,878</b>	<b>(40,667)</b>	<b>833,417</b>
<b>Long-Term Debt:</b>						
11 1/4% senior subordinated notes, net of unamortized discount		226,173				226,173
Senior secured term loan		287,500				287,500

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9 3/4% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,472					35,472
Inter-company loan payable			726,844	60,165	(787,009)	
Other long-term debt			330	41,945		42,275
Total Long-Term Debt	35,472	713,673	727,174	102,110	(787,009)	791,420
Deferred compensation liability		138,037				138,037
Other liabilities			48,356	62,666		111,022
Total Liabilities	89,848	869,324	1,307,746	434,654	(827,676)	1,873,896
Minority interest				6,656		6,656
Commitments and contingencies						
Stockholders' Equity	332,929	321,451	252,399	199,393	(773,243)	332,929
Total Liabilities and Stockholders' Equity	\$ 422,777	\$ 1,190,775	\$ 1,560,145	\$ 640,703	\$ (1,600,919)	\$ 2,213,481

- (a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 3/4% senior notes and 11 1/4% senior subordinated notes, all warehouse receivables funded under the RFC line of credit are pledged to RFC, and accordingly are not included as collateral for these notes or our other outstanding debt.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$	\$	\$ 406,679	\$ 168,320	\$	\$ 574,999
Costs and expenses:						
Cost of services			222,991	77,720		300,711
Operating, administrative and other	529	2,842	132,714	77,141		213,226
Depreciation and amortization			8,683	3,657		12,340
Merger-related charges			3,761	279		4,040
Operating (loss) income	(529)	(2,842)	38,530	9,523		44,682
Equity income from unconsolidated subsidiaries		294	4,368	164		4,826
Interest income	20	8,403	470	177	(8,398)	672
Interest expense	368	13,540	7,320	2,089	(8,398)	14,919
Loss on extinguishment of debt	7,166	9,900				17,066
Equity income from consolidated subsidiaries	17,209	28,770	4,752		(50,731)	
Income before (benefit) provision for income taxes	9,166	11,185	40,800	7,775	(50,731)	18,195
(Benefit) provision for income taxes	(2,729)	(6,024)	12,030	3,023		6,300
Net income	\$ 11,895	\$ 17,209	\$ 28,770	\$ 4,752	\$ (50,731)	\$ 11,895

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$	\$	\$ 309,075	\$ 114,301	\$	\$ 423,376

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Costs and expenses:

Cost of services			156,972	50,848		207,820
Operating, administrative and other	88	(1,994)	125,412	57,170		180,676
Depreciation and amortization			38,162	2,909		41,071
Merger-related charges			14,151	2,334		16,485
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating (loss) income	(88)	1,994	(25,622)	1,040		(22,676)
Equity income (loss) from unconsolidated subsidiaries		60	2,539	(281)		2,318
Interest income	67	10,596	832	56	(10,178)	1,373
Interest expense	2,947	18,826	8,389	1,016	(10,178)	21,000
Loss on extinguishment of debt		6,840				6,840
Equity (loss) income from consolidated subsidiaries	(26,924)	(20,315)	1,813		45,426	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Loss before benefit for income taxes	(29,892)	(33,331)	(28,827)	(201)	45,426	(46,825)
Benefit for income taxes	(1,447)	(6,407)	(8,512)	(2,014)		(18,380)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net (loss) income	<u>\$ (28,445)</u>	<u>\$ (26,924)</u>	<u>\$ (20,315)</u>	<u>\$ 1,813</u>	<u>\$ 45,426</u>	<u>\$ (28,445)</u>

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$	\$	\$ 1,093,752	\$ 473,155	\$	\$ 1,566,907
Costs and expenses:						
Cost of services			584,862	212,682		797,544
Operating, administrative and other	1,179	7,532	406,943	227,362		643,016
Depreciation and amortization			25,974	14,027		40,001
Merger-related charges			22,038	3,536		25,574
Operating (loss) income	(1,179)	(7,532)	53,935	15,548		60,772
Equity income (loss) from unconsolidated subsidiaries		728	9,634	(242)		10,120
Interest income	81	35,521	1,680	501	(35,480)	2,303
Interest expense	4,084	45,480	31,848	6,206	(35,480)	52,138
Loss on extinguishment of debt	7,166	13,909				21,075
Equity income from consolidated subsidiaries	6,196	25,347	2,511		(34,054)	
(Loss) income before (benefit) provision for income taxes	(6,152)	(5,325)	35,912	9,601	(34,054)	(18)
(Benefit) provision for income taxes	(4,444)	(11,521)	10,565	7,090		1,690
Net (loss) income	\$ (1,708)	\$ 6,196	\$ 25,347	\$ 2,511	\$ (34,054)	\$ (1,708)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003****(Dollars in thousands)**

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
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Revenue	\$	\$	\$ 727,394	\$ 281,423	\$	\$ 1,008,817
Costs and expenses:						
Cost of services			359,672	124,813		484,485
Operating, administrative and other	244	2,716	298,302	143,010		444,272
Depreciation and amortization			46,704	6,867		53,571
Merger-related charges			15,890	3,905		19,795
Operating (loss) income	(244)	(2,716)	6,826	2,828		6,694
Equity income (loss) from unconsolidated subsidiaries		84	9,461	(363)		9,182
Interest income	136	29,380	1,916	132	(28,940)	2,624
Interest expense	8,800	39,096	28,491	4,292	(28,940)	51,739
Loss on extinguishment of debt		6,840				6,840
Equity loss from consolidated subsidiaries	(19,371)	(10,044)	(957)		30,372	
Loss before benefit for income taxes	(28,279)	(29,232)	(11,245)	(1,695)	30,372	(40,079)
Benefit for income taxes	(3,659)	(9,861)	(1,201)	(738)		(15,459)
Net loss	\$ (24,620)	\$ (19,371)	\$ (10,044)	\$ (957)	\$ 30,372	\$ (24,620)

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
<b>CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:</b>	\$ (10,948)	\$ (1,049)	\$ 55,910	\$ (5,308)	\$ 38,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from sale of servicing rights and other assets			5,435	172	5,607
Proceeds from sale of property held for sale				50,401	50,401
Capital expenditures, net of concessions received			(20,204)	(7,251)	(27,455)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(8,586)	(8,198)	(16,784)
Other investing activities, net		113	(2,257)	(804)	(2,948)
Net cash provided by (used in) investing activities		113	(25,612)	34,320	8,821
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from the revolver and swingline credit facility		186,750			186,750
Repayment of revolver and swingline credit facility		(186,750)			(186,750)
Repayment of senior secured term loan		(17,500)			(17,500)
Repayment of non-recourse debt related to property held for sale				(42,048)	(42,048)
Repayment of euro cash pool and other loans, net			(3,146)	(6,663)	(9,809)
Repayment of 9 <sup>3</sup> / <sub>4</sub> % senior notes		(70,000)			(70,000)
Repayment of 11 <sup>1</sup> / <sub>4</sub> % senior subordinated notes		(21,631)			(21,631)
Repayment of 16% senior notes	(38,316)				(38,316)
Proceeds from issuance of common stock, net	135,000				135,000
Proceeds from exercise of stock options	7,991				7,991
Payment of deferred financing fees		(3,942)			(3,942)
(Increase) decrease in inter-company receivables, net	(96,182)	116,307	(49,838)	29,713	
Other financing activities, net	(499)			(967)	(1,466)
Net cash provided by (used in) financing activities	7,994	3,234	(52,984)	(19,965)	(61,721)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(2,954)	2,298	(22,686)	9,047	(14,295)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	3,008	17	148,752	12,104	163,881



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Effect of currency exchange rate changes on cash				(1,661)	(1,661)
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 54</b>	<b>\$ 2,315</b>	<b>\$ 126,066</b>	<b>\$ 19,490</b>	<b>\$ 147,925</b>
<b>SUPPLEMENTAL DATA:</b>					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 7,050	\$ 45,695	\$ 1,156	\$ 2,945	\$ 56,846
Income taxes, net of refunds	\$ 11,462	\$	\$	\$	\$ 11,462

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
<b>CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:</b>	\$ (46,824)	\$ 28,930	\$ (31,706)	\$ (21,114)	\$ (70,714)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures, net of concessions received			(9,163)	978	(8,185)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(243,847)		(243,847)
Other investing activities, net		26	2,638	(3,316)	(652)
Net cash provided by (used in) investing activities		26	(250,372)	(2,338)	(252,684)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		152,850			152,850
Repayment of revolver and swingline credit facility		(152,850)			(152,850)
Proceeds from senior secured term loans		75,000			75,000
Repayment of senior secured term loans		(7,513)			(7,513)
Repayment of notes payable		(43,000)			(43,000)
Proceeds from 9 <sup>3</sup> / <sub>4</sub> % senior notes		200,000			200,000
Proceeds from short-term borrowings and other loans, net				3,732	3,732
Proceeds from issuance of common stock, net	120,580				120,580
(Increase) decrease in inter-company receivables, net	(53,623)	(233,711)	267,207	20,127	
Other financing activities, net	(194)	(19,766)		(341)	(20,301)
Net cash provided by (used in) financing activities	66,763	(28,990)	267,207	23,518	328,498
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	19,939	(34)	(14,871)	66	5,100
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	127	54	74,173	5,347	79,701
Effect of currency exchange rate changes on cash				693	693
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 20,066	\$ 20	\$ 59,302	\$ 6,106	\$ 85,494

## SUPPLEMENTAL DATA:

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Cash paid during the period for:

Interest, net of amount capitalized	\$ 4,038	\$ 21,949	\$ 1,371	\$ 4,336	\$ 31,694
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income taxes, net of refunds	\$ 25,533	\$	\$	\$	\$ 25,533
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****19. Industry Segments**

We report our operations through three geographically organized segments: (1) Americas, (2) Europe, Middle East and Africa (EMEA) and (3) Asia Pacific. The Americas consist of operations in the U.S., Canada, Mexico and South America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. Summarized financial information by operating segment is as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<b>Revenue</b>				
Americas	\$ 425,194	\$ 324,508	\$ 1,148,577	\$ 766,995
EMEA	110,000	69,390	310,511	167,020
Asia Pacific	39,805	29,478	107,819	74,802
	<u>\$ 574,999</u>	<u>\$ 423,376</u>	<u>\$ 1,566,907</u>	<u>\$ 1,008,817</u>
<b>Operating income (loss)</b>				
Americas	\$ 35,837	\$ (11,914)	\$ 50,162	\$ 16,533
EMEA	4,649	(13,844)	1,140	(13,137)
Asia Pacific	4,196	3,082	9,470	3,298
	<u>44,682</u>	<u>(22,676)</u>	<u>60,772</u>	<u>6,694</u>
<b>Equity income (loss) from unconsolidated subsidiaries</b>				
Americas	4,302	2,536	9,601	9,379
EMEA	(60)	(253)	(277)	(361)
Asia Pacific	584	35	796	164
	<u>4,826</u>	<u>2,318</u>	<u>10,120</u>	<u>9,182</u>
<b>Interest income</b>	672	1,373	2,303	2,624
<b>Interest expense</b>	14,919	21,000	52,138	51,739
<b>Loss on extinguishment of debt</b>	17,066	6,840	21,075	6,840
	<u>18,195</u>	<u>(46,825)</u>	<u>(18)</u>	<u>(40,079)</u>
<b>Income (loss) before provision (benefit) for income taxes</b>	<u>\$ 18,195</u>	<u>\$ (46,825)</u>	<u>\$ (18)</u>	<u>\$ (40,079)</u>

**20. New Accounting and Tax Pronouncements**

On March 31, 2004, the FASB issued its Exposure Draft, *Share-Based Payment*, which is a proposed amendment to SFAS No. 123, *Accounting for Stock-Based Compensation*. The amendment would require all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values, which would include all unvested grants at the time of adoption. The FASB expects to issue a final standard late in 2004. On October 13, 2004, the FASB decided that the final amendment would be effective for public companies for any interim or annual period beginning after June 15, 2005, although early adoption would be encouraged. The adoption of this exposure draft is not expected to have a material impact on our financial position or results of operations.

In October 2004, the American Jobs Creation Act of 2004 was passed. We are currently assessing the impact of this law on our operations, particularly relative to provisions on repatriation of foreign earnings as well as deferred compensation. We do not expect this act to have a material impact on our financial position or results of operations.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of CB Richard Ellis Group, Inc.:

We have audited the accompanying consolidated balance sheets of CB Richard Ellis Group, Inc., a Delaware corporation, and subsidiaries (the Company) as of December 31, 2003 and 2002 and the related consolidated statements of operations, cash flows, stockholders' equity and comprehensive (loss) income for each of the two years in the period ended December 31, 2003. Our audits also included the 2003 and 2002 financial statement schedules listed in the Index to Consolidated Financial Statements. These financial statements and the financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the 2003 and 2002 financial statements and the financial statement schedules based on our audits. The consolidated financial statements and the financial statement schedule of the Company for the period from February 20 (inception) to December 31, 2001 and the consolidated financial statements and financial statement schedule of CB Richard Ellis Services, Inc. (the Predecessor) for the period from January 1 to July 20, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and stated that such 2001 financial statement schedules, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein, in their report dated February 26, 2002.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2003 and 2002 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.

As discussed in Note 8 to the Consolidated Financial Statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 to conform to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142).

As discussed above, the consolidated financial statements of the Company for the period from February 20 (inception) to December 31, 2001 and the consolidated financial statements of the Predecessor for the period from January 1 to July 20, 2001 were audited by other auditors who have ceased operations. As described in Note 8, these consolidated financial statements have been revised to include the transitional disclosures required by SFAS 142, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 8 with respect to 2001 included (i) comparing the previously reported net income (loss) to the previously issued consolidated financial statements and the adjustments to reported net income (loss) representing amortization expense (including any related tax effects) recognized in those periods relating to goodwill that is no longer being amortized as a result of initially applying SFAS 142 to the Company's and the Predecessor's underlying analysis obtained from management, and (ii) testing the mathematical accuracy of the reconciliation of adjusted net income (loss) to reported net income (loss), and the related earnings (loss)-per-share amounts. In our opinion, the disclosures for 2001 in Note 8 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company and the Predecessor other than with respect to such disclosures, and accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.



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As discussed above, the consolidated financial statements of the Company for the period from February 20 (inception) to December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 23, those consolidated financial statements have been revised to give effect to the stock split on May 4, 2004 and the reverse stock split on June 7, 2004 discussed in Note 23. We audited the adjustments described in Note 23 that were applied to revise the Company's 2001 consolidated financial statements for such stock split and reverse stock split. Our audit procedures included (1) comparing the amounts shown in the earnings per share disclosures for 2001 to the Company's underlying accounting analysis obtained from management, (2) comparing the previously reported shares outstanding and income statement amounts per the Company's accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the additional shares to give effect to the stock split and reverse stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, such adjustments have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such stock split and reverse stock split adjustments and, accordingly, we do not express an opinion or any form of assurance on the Company's 2001 consolidated financial statements taken as a whole.

DELOITTE & TOUCHE LLP

Los Angeles, California

March 30, 2004 (June 7, 2004 as to the effects of the stock split and reverse stock split described in Note 23)

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Stockholders and Board of Directors of CBRE Holding, Inc.:

We have audited the accompanying consolidated balance sheet of CBRE Holding, Inc., a Delaware corporation, (the Company) as of December 31, 2001 and related consolidated statements of operations, cash flows, stockholders' equity and comprehensive income for the period from February 20, 2001 (inception) through December 31, 2001. We have also audited the accompanying consolidated balance sheet of CB Richard Ellis Services, Inc. (Predecessor) as of December 31, 2000, and the related consolidated statements of operations, cash flows, stockholders' equity and comprehensive (loss) income for the period from January 1, 2001 to July 20, 2001, and the twelve months ended December 31, 2000 and 1999. These financial statements and the schedule referred to below are the responsibility of the Company's and the Predecessor's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of CBRE Holding, Inc. as of December 31, 2001 and the results of their operations and their cash flows for the period from February 20, 2001 (inception) through December 31, 2001 and the financial position of CB Richard Ellis Services, Inc. (the Predecessor) as of December 31, 2000 and the results of their operations and their cash flows for the period from January 1, 2001 to July 20, 2001, and the twelve months ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Los Angeles, California

February 26, 2002

*NOTE:* The report of Arthur Andersen LLP presented above is a copy of a previously issued Arthur Andersen LLP report. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Form 10-K.

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*NOTE:* The consolidated financial statements for the period from February 20 (inception) to December 31, 2001 and for the period from January 1 to July 20, 2001 have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142. Goodwill and Other Intangible Assets (see Note 8) and the stock splits (see Note 23). The report of Arthur Andersen LLP presented above does not extend to these revisions.

*NOTE:* On February 13, 2004, CBRE Holding, Inc. changed its name to CB Richard Ellis Group, Inc.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except share data)**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 163,881	\$ 79,701
Restricted cash	14,899	
Receivables, less allowance for doubtful accounts of \$16,181 and \$10,892 at December 31, 2003 and 2002, respectively	322,416	166,213
Warehouse receivable	230,790	63,140
Prepaid expenses	22,854	9,748
Deferred tax assets, net	57,681	18,723
Other current assets	26,461	8,415
	<hr/>	<hr/>
Total current assets	838,982	345,940
Property and equipment, net	113,569	66,634
Goodwill	819,558	577,137
Other intangible assets, net of accumulated amortization of \$73,449 and \$7,739 at December 31, 2003 and 2002, respectively	131,731	91,082
Deferred compensation assets	76,389	63,642
Investments in and advances to unconsolidated subsidiaries	68,361	50,208
Deferred tax assets, net	32,179	36,376
Other assets, net	132,712	93,857
	<hr/>	<hr/>
Total assets	\$ 2,213,481	\$ 1,324,876
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 189,787	\$ 102,415
Compensation and employee benefits payable	148,874	63,734
Accrued bonus and profit sharing	200,343	103,858
Income taxes payable		15,451
Short-term borrowings:		
Warehouse line of credit	230,790	63,140
Other	39,347	60,054
	<hr/>	<hr/>
Total short-term borrowings	270,137	123,194
Current maturities of long-term debt	11,285	10,711
Other current liabilities	12,991	11,724
	<hr/>	<hr/>
Total current liabilities	833,417	431,087
Long-Term Debt:		
11 1/4% senior subordinated notes, net of unamortized discount of \$2,827 and \$3,057 at December 31, 2003 and 2002, respectively	226,173	225,943
Senior secured term loans	287,500	211,000
9 3/4% senior notes	200,000	
16% senior notes, net of unamortized discount of \$2,844 and \$5,107 at December 31, 2003 and 2002, respectively	35,472	61,863
Other long-term debt	42,275	198
	<hr/>	<hr/>

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Total long-term debt	791,420	499,004
Deferred compensation liability	138,037	106,252
Pension liability	35,998	10,766
Other liabilities	75,024	20,811
	<u>          </u>	<u>          </u>
Total liabilities	1,873,896	1,067,920
Minority interest	6,656	5,615
Commitments and contingencies		
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 7,561,499 and 4,969,757 shares issued and outstanding (including treasury shares) at December 31, 2003 and 2002, respectively	76	50
Class B common stock; \$0.01 par value; 100,000,000 shares authorized; 53,409,556 and 34,987,934 shares issued and outstanding at December 31, 2003 and 2002, respectively	534	350
Additional paid-in capital	361,522	240,318
Notes receivable from sale of stock	(4,680)	(4,800)
Accumulated earnings	1,449	36,153
Accumulated other comprehensive loss	(23,780)	(18,998)
Treasury stock at cost, 385,103 and 305,332 shares at December 31, 2003 and 2002, respectively	(2,192)	(1,732)
	<u>          </u>	<u>          </u>
Total stockholders' equity	332,929	251,341
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 2,213,481	\$ 1,324,876
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

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## CB RICHARD ELLIS GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share data)

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20  (inception)  to  December 31,	Period From January 1  to July 20,
	2003	2002	2001	2001
Revenue	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934
Costs and expenses:				
Cost of services	796,408	547,093	263,601	279,203
Operating, administrative and other	678,397	501,798	219,409	297,996
Depreciation and amortization	92,622	24,614	12,198	25,656
Merger-related and other nonrecurring charges	36,817	36	6,442	22,127
Operating income (loss)	25,830	96,736	61,178	(17,048)
Equity income from unconsolidated subsidiaries	14,365	9,326	1,554	2,874
Interest income	6,041	3,272	2,427	1,567
Interest expense	87,216	60,501	29,717	20,303
(Loss) income before (benefit) provision for income taxes	(40,980)	48,833	35,442	(32,910)
(Benefit) provision for income taxes	(6,276)	30,106	18,016	1,110
Net (loss) income	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Basic (loss) earnings per share	\$ (0.68)	\$ 0.45	\$ 0.80	\$ (1.60)
Weighted average shares outstanding for basic (loss) earnings per share	50,918,572	41,640,576	21,741,351	21,306,584
Diluted (loss) earnings per share	\$ (0.68)	\$ 0.44	\$ 0.79	\$ (1.60)
Weighted average shares outstanding for diluted (loss) earnings per share	50,918,572	42,185,989	21,920,915	21,306,584

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20	
			(inception) to	Period From January 1
	2003	2002	December 31,	to July 20, 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net (loss) income	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Depreciation and amortization	92,622	24,614	12,198	25,656
Amortization and write-off of deferred financing costs	13,276	3,322	1,316	1,152
Amortization and write-off of long-term debt discount	2,493	444	201	136
Deferred compensation deferrals	13,715	15,925	16,151	16,447
Gain on sale of properties and servicing rights	(5,321)	(6,287)	(2,868)	(10,009)
Equity income from unconsolidated subsidiaries	(14,365)	(9,326)	(1,554)	(2,874)
Provision for doubtful accounts	3,436	3,415	1,317	3,387
Deferred income tax (benefit) provision	(12,750)	5,158	(1,948)	(1,569)
(Increase) decrease in receivables	(43,011)	(4,770)	(18,379)	26,970
(Increase) decrease in deferred compensation assets	(12,747)	5,743	(4,517)	(11,665)
Increase (decrease) in accounts payable and accrued expenses	14,448	7,912	(4,749)	(5,491)
Increase (decrease) in compensation and employee benefits payable and accrued bonus and profit sharing	42,634	17,541	64,677	(101,312)
(Decrease) increase in income taxes payable	(15,197)	3,225	13,578	(16,357)
Increase (decrease) in other liabilities	16,021	(15,203)	(9,260)	(11,305)
Other operating activities, net	3,391	(5,558)	7,745	624
Net cash provided by (used in) operating activities	63,941	64,882	91,334	(120,230)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Capital expenditures, net of concessions received	(26,961)	(14,266)	(6,501)	(14,814)
Proceeds from sale of properties and servicing rights	3,949	6,378	2,108	9,544
Investment in property held for sale			(40,174)	(2,282)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(263,683)	(14,811)	(214,702)	(1,924)
Other investing activities, net	1,900	(1,431)	(2,124)	(2,663)
Net cash used in investing activities	(284,795)	(24,130)	(261,393)	(12,139)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from revolver and swingline credit facility	152,850	238,000	113,750	
Repayment of revolver and swingline credit facility	(152,850)	(238,000)	(113,750)	
Proceeds from senior secured term loans	375,000		235,000	
Repayment of senior secured term loans	(298,475)	(9,351)	(4,675)	
Proceeds from 9 <sup>3</sup> / <sub>4</sub> % senior notes	200,000			

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Repayment of notes payable	(43,000)			
Proceeds from 16% senior notes			65,000	
Repayment of 16% senior notes	(30,000)			
Proceeds from (repayment of) senior notes and other loans, net	3,029	(8,205)	(1,188)	446
Proceeds from 11 1/4% senior subordinated notes			225,629	
Repayment of 8 7/8% senior subordinated notes			(175,000)	
Proceeds from non-recourse debt related to property held for sale			37,179	
Proceeds from revolving credit facility				195,000
Repayment of revolving credit facility			(235,000)	(70,000)
Payment of deferred financing fees	(22,707)	(443)	(21,750)	(8)
Proceeds from issuance of common stock	120,980	180	92,156	
Other financing activities, net	(1,163)	(19)	(3,520)	792
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	303,664	(17,838)	213,831	126,230
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	82,810	22,914	43,772	(6,139)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	79,701	57,450	13,662	20,854
Effect of currency exchange rate changes on cash	1,370	(663)	16	(1,053)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 163,881</b>	<b>\$ 79,701</b>	<b>\$ 57,450</b>	<b>\$ 13,662</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>				
Cash paid during the period for:				
Interest, net of amount capitalized	\$ 63,718	\$ 52,647	\$ 26,126	\$ 18,457
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income taxes, net of refunds	\$ 17,783	\$ 19,142	\$ 5,061	\$ 19,083
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****CB RICHARD ELLIS GROUP, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Dollars in thousands, except share data)

	CB Richard Ellis Group								
	Class A common stock	Class B common stock	Additional paid-in capital	Notes	Accumulated earnings	Accumulated other comprehensive income (loss)		Treasury stock	Total
				receivable		Minimum	Foreign		
				from sale of stock		pension liability	currency translation		
Balance, February 20, 2001	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net income					17,426				17,426
Contribution of deferred compensation plan stock fund units			18,771						18,771
Contribution of shares by certain shareholders of CB Richard Ellis Services, Inc.		222	121,590						121,812
Net issuance of Class A common stock	50		27,639						27,689
Issuance of Class B common stock		128	72,285						72,413
Notes receivable from sale of stock				(5,884)					(5,884)
Foreign currency translation gain							296		296
Balance, December 31, 2001	50	350	240,285	(5,884)	17,426		296		252,523
Net income					18,727				18,727
Issuance of Class A common stock			460	(180)					280
Net cancellation of deferred compensation stock fund units			(427)						(427)
Net collection on notes receivable from sale of stock				1,264					1,264
Purchase of common stock								(1,732)	(1,732)
Minimum pension liability adjustment, net of tax						(17,039)			(17,039)
Foreign currency translation loss							(2,255)		(2,255)
Balance, December 31, 2002	50	350	240,318	(4,800)	36,153	(17,039)	(1,959)	(1,732)	251,341
Net loss					(34,704)				(34,704)
Issuance of Class A common stock	26		14,681						14,707
Issuance of Class B common stock		184	106,169						106,353
Issuance of deferred compensation stock fund units, net of cancellations			195						195
Net collection on notes receivable from sale of stock				120					120
Purchase of common stock								(460)	(460)
Minimum pension liability adjustment, net of tax						1,930			1,930
Compensation expense for stock options			159						159
Foreign currency translation loss							(6,712)		(6,712)
Balance, December 31, 2003	\$ 76	\$ 534	\$ 361,522	\$ (4,680)	\$ 1,449	\$ (15,109)	\$ (8,671)	\$ (2,192)	\$ 332,929

	Predecessor Company						
	Notes			Accumulated			
	Common	Additional	receivable	from sale	Accumulated	other	
						paid-in	of stock
stock	capital	of stock	deficit	loss	stock	Total	
Balance, December 31, 2000	\$ 217	\$ 364,168	\$ (11,847)	\$ (89,097)	\$ (12,258)	\$ (15,844)	\$ 235,339
Net loss				(34,020)			(34,020)
Common stock issued for incentive plans		360					360
Contributions, deferred compensation plan		1,004					1,004
Deferred compensation plan co-match		492					492
Net collection on notes receivable from sale of stock		(742)	1,001				259
Amortization of cheap and restricted stock	1	210					211
Tax deduction from issuance of stock		1,479					1,479
Foreign currency translation loss					(7,106)		(7,106)
Cancellation of common stock		(54)					(54)
Cancellation of common stock and elimination of historical equity due to the merger	(218)	(366,917)	10,846	123,117	19,364	15,844	(197,964)
Balance, July 20, 2001	\$	\$	\$	\$	\$	\$	\$

The accompanying notes are an integral part of these consolidated financial statements.

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## CB RICHARD ELLIS GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in thousands)

	CB Richard Ellis Group		Predecessor Company	
	Year Ended December 31,	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	
	2003	2002	2001	
Net (loss) income	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(6,712)	(2,255)	296	(7,106)
Minimum pension liability adjustment, net of tax	1,930	(17,039)		
Total other comprehensive (loss) income	(4,782)	(19,294)	296	(7,106)
Comprehensive (loss) income	\$ (39,486)	\$ (567)	\$ 17,722	\$ (41,126)

The accompanying notes are an integral part of these consolidated financial statements.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Operations**

CB Richard Ellis Group, Inc. (formerly known as CBRE Holding, Inc.), a Delaware corporation, was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international commercial real estate services firm. Prior to July 20, 2001, we were a wholly owned subsidiary of Blum Strategic Partners, L.P. (Blum Strategic), formerly known as RCBA Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. (Insignia Acquisition). We have no substantive operations other than our investment in CBRE.

We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets globally under the CB Richard Ellis brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

**2. Significant Accounting Policies**

*Principles of Consolidation*

The accompanying consolidated financial statements include our accounts and those of our majority-owned subsidiaries. Additionally, the consolidated financial statements for the period from January 1 to July 20, 2001 include the accounts of CBRE prior to the 2001 Merger as CBRE is considered our predecessor for purposes of Regulation S-X. The equity attributable to minority shareholders' interests in subsidiaries is shown separately in the accompanying consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated in consolidation.

Our investments in unconsolidated subsidiaries in which we have the ability to exercise significant influence over operating and financial policies, but do not control, are accounted for under the equity method. Accordingly, our share of the earnings of these equity-method basis companies is included in consolidated net income. All other investments held on a long-term basis are valued at cost less any impairment in value.

*Use of Estimates*

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results may differ from these estimates. Management believes that these estimates provide a reasonable basis for the fair presentation of our financial condition and results of operations.

*Cash and Cash Equivalents*

Cash and cash equivalents generally consist of cash and highly liquid investments with an original maturity of less than three months. We control certain cash and cash equivalents as an agent for our investment and property management clients. These amounts are not included in the accompanying consolidated balance sheets (See Note 17).

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Property and Equipment*

Property and equipment is stated at cost, net of accumulated depreciation, or in the case of capitalized leases, at the present value of the future minimum lease payments. Depreciation and amortization of property and equipment is computed primarily using the straight-line method over estimated useful lives ranging up to ten years. Leasehold improvements are amortized over the term of the respective leases, excluding options to renew. We capitalize expenditures that materially increase the life of the related assets and expense the costs of maintenance and repairs.

We periodically review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any of the significant assumptions inherent in this assessment materially change due to market, economic, and/or other factors, the recoverability is assessed based on the revised assumptions. If this analysis indicates that such assets are considered to be impaired, the impairment is recognized in the period the changes occur and represents the amount by which the carrying value exceeds the fair value of the asset.

*Goodwill and Other Intangible Assets*

Goodwill mainly represents the excess of the purchase price paid by us over the fair value of the tangible and intangible assets and liabilities acquired in the 2001 Merger and in the Insignia Acquisition. Other intangible assets include trademarks, which were separately identified as a result of the 2001 Merger, as well as a trade name separately identified as a result of the Insignia Acquisition representing the Richard Ellis trade name in the United Kingdom (U.K.) that was owned by Insignia prior to the Insignia Acquisition. Both the trademarks and the trade name are not being amortized and have indefinite estimated useful lives. Other intangible assets also include backlog, which represents the fair value of Insignia's net revenue backlog as of July 23, 2003 that was acquired as part of the Insignia Acquisition. The backlog consists of the net commission receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia Acquisition. Backlog is being amortized as cash is received or upon final closing of these pending transactions. The remaining other intangible assets primarily include management contracts, loan servicing rights, franchise agreements and a trade name, which are all being amortized on a straight-line basis over estimated useful lives ranging up to 20 years.

We fully adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002. This statement requires us to perform at least an annual assessment of impairment of goodwill and other intangible assets deemed to have indefinite useful lives based on assumptions and estimates of fair value and future cash flow information. We perform an annual assessment of our goodwill and other intangible assets deemed to have indefinite lives for impairment based in part on a third-party valuation as of the beginning of the fourth quarter of each year. We also assess our goodwill and other intangible assets deemed to have indefinite useful lives for impairment when events or circumstances indicate that our carrying value may not be recoverable from future cash flows. We completed our required annual impairment tests as of October 1, 2003 and 2002, and determined that no impairment existed as of those dates.

*Deferred Financing Costs*

Costs incurred in connection with financing activities are deferred and amortized using the straight-line method over the terms of the related debt agreements ranging up to ten years. Amortization of these costs is charged to interest expense in the accompanying consolidated statements of operations. In the third quarter of 2003, in connection with the Insignia Acquisition, we entered into an amended and restated credit facility and wrote off \$6.8 million of unamortized deferred financing costs associated with our prior credit facility. In the

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

fourth quarter of 2003, we wrote off \$1.8 million of unamortized deferred financing costs associated with the \$20.0 million and \$10.0 million redemptions of our 16% senior notes on October 27, 2003 and December 29, 2003, respectively. Total deferred costs, net of accumulated amortization, included in other assets in the accompanying consolidated balance sheets were \$29.9 million and \$20.5 million, as of December 31, 2003 and 2002, respectively.

*Revenue Recognition*

Real estate commissions on sales are recorded as income upon close of escrow or upon transfer of title. Real estate commissions on leases are generally recorded as income once we satisfy all obligations under the commission agreement. A typical commission agreement provides that we earn a portion of the lease commission upon the execution of the lease agreement by the tenant, while the remaining portion(s) of the lease commission is earned at a later date, usually upon tenant occupancy. The existence of any significant future contingencies will result in the delay of recognition of revenue until such contingencies are satisfied. For example, if we do not earn all or a portion of the lease commission until the tenant pays their first month's rent and the lease agreement provides the tenant with a free rent period, we delay revenue recognition until cash rent is paid by the tenant. Investment management and property management fees are recognized when earned under the provisions of the related agreements. Appraisal fees are recorded after services have been rendered. Loan origination fees are recognized at the time the loan closes and we have no significant remaining obligations for performance in connection with the transaction, while loan servicing fees are recorded to revenue as monthly principal and interest payments are collected from mortgagors. Other commissions, consulting fees and referral fees are recorded as income at the time the related services have been performed unless significant future contingencies exist.

In establishing the appropriate provisions for trade receivables, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivables balances. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are greater than 180 days are fully provided for.

*Business Promotion and Advertising Costs*

The costs of business promotion and advertising are expensed as incurred in accordance with Statement of Position 93-7, *Reporting on Advertising Costs*. Business promotion and advertising costs of \$23.5 million, \$16.8 million, \$6.1 million and \$12.5 million were included in operating, administrative and other expenses for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001, respectively.

*Foreign Currencies*



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The financial statements of subsidiaries located outside the United States (U.S.) are generally measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The resulting translation adjustments are included in the accumulated other comprehensive (loss) income component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the results of operations. The aggregate transaction gains and losses included in the accompanying consolidated statements of operations are a \$9.8 million gain, a \$6.4 million gain, a \$0.2 million loss and a \$0.3 million gain for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001, respectively.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Comprehensive (Loss) Income*

Comprehensive (loss) income consists of net (loss) income and other comprehensive (loss) income. Accumulated other comprehensive (loss) income consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude income tax expense (benefit) given that earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. The income tax benefit associated with the minimum pension liability adjustments is \$6.5 million and \$7.3 million as of December 31, 2003 and 2002, respectively.

*Accounting for Transfers and Servicing*

We follow SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* in accounting for loan sales and acquisition of servicing rights. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under the approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred at fair value. Servicing assets are amortized over the period of estimated servicing income with a write-off required when control is surrendered. Our recording of servicing rights at their fair value resulted in gains, which have been reflected in the accompanying consolidated statements of operations. Corresponding servicing assets of approximately \$1.8 million and \$2.1 million, for the years ended December 31, 2003 and 2002, respectively, are included in other intangible assets reflected in the accompanying consolidated balance sheets.

*Accounting for Broker Draws*

As part of our recruitment efforts relative to new U.S. brokers, we offer a transitional broker draw arrangement. Our broker draw arrangements generally last until such time as a broker's pipeline of business is sufficient to allow him or her to earn sustainable commissions. This program is intended to provide the broker with a minimal amount of cash flow to allow adequate time for his or her training as well as time for him or her to develop business relationships. Similar to traditional salaries, the broker draws are paid irrespective of the actual revenues generated by the broker. Often these broker draws represent the only form of compensation received by the broker. Furthermore, it is not our policy to pursue collection of unearned broker draws paid under this arrangement. As a result, we have concluded that broker draws are economically equivalent to salaries paid and accordingly charge them to compensation as incurred. The broker is also entitled to earn a commission on completed revenue transactions. This amount is calculated as the commission that would have been payable under our full commission program, less any amounts previously paid to the broker in the form of a draw.

*Stock-Based Compensation*

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Prior to 2003, we accounted for stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. No stock-based employee compensation cost is reflected in net income (loss) for the year ended December 31, 2002, for the period from February 20 (inception) to December 31, 2001 or for the period from January 1 to July 20, 2001, as all options granted during those periods had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

after January 1, 2003, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*. Awards under our stock-based compensation plans vest over five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net loss for the year ended December 31, 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

In accordance with SFAS No. 123, we estimate the value of our options based upon the Minimum Value method. Option valuation models require the input of assumptions such as the expected stock price volatility. As our common stock is not freely tradable on a national securities exchange or an over-the-counter market, an effectively zero percent volatility was utilized. The dividend yield is also excluded from the calculation, as it is our present intention to retain all earnings.

The following table illustrates the effect on net (loss) income and (loss) earnings per share if the minimum value based method had been applied to all outstanding and unvested awards in each period (dollars in thousands, except share data):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	
	2003	2002	2001	2001
Net (loss) income as reported	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add: Stock-based employee compensation expense included in reported net (loss) income, net of related tax effect	98			
Deduct: Total stock-based employee compensation expense determined under the minimum value method for all awards, net of related tax effect	(648)	(523)	(272)	(2,758)
Pro Forma net (loss) income	\$ (35,254)	\$ 18,204	\$ 17,154	\$ (36,778)
Basic EPS:				
As Reported	\$ (0.68)	\$ 0.45	\$ 0.80	\$ (1.60)
Pro Forma	\$ (0.69)	\$ 0.44	\$ 0.79	\$ (1.73)

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Diluted EPS:				
As Reported	\$ (0.68)	\$ 0.44	\$ 0.79	\$ (1.60)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Pro Forma	\$ (0.69)	\$ 0.43	\$ 0.78	\$ (1.73)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The weighted average minimum value of options and warrants granted by us was \$0.58 for the year ended December 31, 2003, \$0.84 for the year ended December 31, 2002 and \$0.67 for the period from February 20 (inception) to December 31, 2001. There were no stock options or warrants granted by CBRE for the period from January 1 to July 20, 2001 that remained outstanding as of December 31, 2001.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The minimum value of each option grant and warrant is estimated on the date of grant utilizing the following weighted average assumptions:

	<b>Year Ended</b>		<b>Period From</b>
	<b>December 31,</b>		<b>February 20</b>
	<hr/>		<b>(inception)</b>
			<b>to</b>
			<b>December 31,</b>
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<hr/>	<hr/>	<hr/>
Risk-free interest rate	3.02%	4.06%	4.69%
Expected volatility	0.00%	0.00%	0.00%
Expected life	5 years	5 years	5 years

*(Loss) Earnings Per Share*

Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share further assumes the dilutive effect of stock options, stock warrants and contingently issuable shares. Contingently issuable shares represent unvested stock fund units in the deferred compensation plan. In accordance with SFAS No. 128, *Earnings Per Share* these shares are included in the dilutive earnings per share calculation under the treasury stock method (see Note 16).

*Income Taxes*

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured by applying enacted tax rates and laws to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

*New Accounting Pronouncements*

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. This standard clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and addresses consolidation by business enterprises of variable interest entities. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. This statement is immediately effective for variable interest entities created or in which an enterprise obtains an interest after January 31, 2003.

In December 2003, the FASB issued a revised version of FIN 46 (FIN 46R). Among other things, the revision clarifies the definition of a variable interest entity, exempts most entities that are businesses from the scope of FIN 46R and delays the effective date of the revised standard to no later than the end of the first reporting period ending after December 15, 2003 for special purpose entities and March 15, 2004 for all other types of entities. The adoption of this interpretation has not had, and is not expected to have, a material impact on our financial position or results of operations.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April 2003, the FASB issued SFAS No. 149, *Amendment to Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is applied prospectively and is effective for contracts entered into or modified after June 30, 2003, except for SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 and certain provisions relating to forward purchases and sales on securities that do not yet exist. The adoption of this statement has not had a material impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for the classification and measurement of financial instruments with characteristics of both liabilities and equity. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to our existing financial instruments effective July 1, 2003. On October 29, 2003, the FASB deferred indefinitely the provisions of paragraphs 9 and 10 and related guidance in the appendices of this pronouncement as they apply to mandatorily redeemable noncontrolling interests. The adoption of the effective provisions of SFAS No. 150 have not had a material impact on our financial position or results of operations.

In December 2003, the FASB issued a revised version of SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits*. The revised statement retains the disclosure requirements contained in SFAS No. 132 and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. We have adopted this statement for the year ended December 31, 2003. In addition, we expect to adopt additional disclosures for our U.K. pension plans during 2004.

*Reclassifications*

Certain reclassifications, which do not have an effect on net income or equity, have been made to the 2002 and 2001 financial statements to conform to the 2003 presentation.

**3. Insignia Acquisition**

On July 23, 2003, pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 28, 2003 (the Insignia Acquisition Agreement), by and among us, CBRE, Apple Acquisition Corp. (Apple Acquisition), a Delaware corporation and wholly owned subsidiary of CBRE, and Insignia Financial Group, Inc. (Insignia), Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the Insignia Acquisition and at the effective time of the Insignia Acquisition became a wholly owned subsidiary of CBRE. We acquired Insignia to solidify our position as the market leader in the commercial real estate services industry.



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In conjunction with and immediately prior to the Insignia Acquisition, Island Fund I LLC (Island), a Delaware limited liability company, which is affiliated with Andrew L. Farkas (Insignia's former Chairman and Chief Executive Officer) and some of Insignia's other former officers, completed the purchase of specified real estate investment assets of Insignia, pursuant to a Purchase Agreement, dated May 28, 2003 (the Island Purchase Agreement), by and among Insignia, us, CBRE, Apple Acquisition and Island. A number of the real estate investment assets that were sold to Island required the consent of one or more third parties in order to transfer such assets. Some of these third party consents were not obtained prior to or since the closing of the Insignia

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Acquisition. As a result, we continue to hold these real estate investment assets pending the receipt of these third party consents. While we hold these assets, we have generally agreed to provide Island with the economic benefits from these assets and Island generally has agreed to indemnify us with respect to any losses incurred in connection with continuing to hold these assets.

Pursuant to the terms of the Insignia Acquisition Agreement, (1) each issued and outstanding share of Insignia Common Stock (other than treasury shares), par value \$0.01 per share, was converted into the right to receive \$11.156 in cash, without interest (the Insignia Common Stock Merger Consideration), (2) each issued and outstanding share of Insignia's Series A Preferred Stock, par value \$0.01 per share, and Series B Preferred Stock, par value \$0.01 per share, was converted into the right to receive \$100.00 per share, plus accrued and unpaid dividends, (3) all outstanding warrants and options to acquire Insignia common stock other than as described below, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of the Insignia Common Stock Merger Consideration over the per share exercise price of the option or warrant, multiplied by the number of shares of Insignia Common Stock subject to the option or warrant less any applicable withholding taxes and (4) outstanding options to purchase Insignia Common Stock granted pursuant to Insignia's 1998 Stock Investment Plan, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of (a) the higher of (x) the Insignia Common Stock Merger Consideration, or (y) the highest final sale price per share of the Insignia Common Stock as reported on the New York Stock Exchange (NYSE) at any time during the 60-day period preceding the closing of the Insignia Acquisition (which was \$11.20), over (b) the exercise price of the options, multiplied by the number of shares of Insignia Common Stock subject to the options, less any applicable withholding taxes. Following the Insignia Acquisition, the Insignia Common Stock was delisted from the NYSE and deregistered under the Securities Exchange Act of 1934.

The funding to complete the Insignia Acquisition, as well as the refinancing of substantially all of the outstanding indebtedness of Insignia, was obtained through (a) the sale of 18,255,338 shares of our Class B Common Stock, par value \$0.01 per share, to Blum Strategic, a Delaware limited partnership, Blum Strategic Partners II, L.P., a Delaware limited partnership and Blum Strategic Partners II GmbH & Co. KG, a German limited partnership, for an aggregate cash purchase price of \$105,394,160; (b) the sale of 631,496 shares of our Class A Common Stock, par value \$.01 per share, to DLJ Investment Partners, L.P., a Delaware limited partnership, DLJ Investment Partners II, L.P., a Delaware limited partnership and DLJIP II Holdings, L.P., a Delaware limited partnership, for an aggregate cash purchase price of \$3,645,840; (c) the sale of 1,732,101 shares of our Class A Common Stock to California Public Employees' Retirement System (CalPERS) for an aggregate cash purchase price of \$10,000,000; (d) the sale of 166,281 shares of our Class B Common Stock to Frederic V. Malek, a director of our company, for an aggregate cash purchase price of \$960,000; (e) the release from escrow of the net proceeds from the offering by CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE that merged with and into CBRE in connection with the Insignia Acquisition, of \$200.0 million of the 9<sup>3</sup>/<sub>4</sub>% Senior Notes due May 15, 2010 (see Note 12), issued and sold by CBRE Escrow on May 22, 2003; (f) \$75.0 million of term loan borrowings under the Amended and Restated Credit Agreement (see Note 12), dated as of May 22, 2003, by and among CBRE, Credit Suisse First Boston (CSFB) as Administrative Agent and Collateral Agent, the other lenders named in the credit agreement, us and the guarantors named in the credit agreement and (g) \$36,870,230 of cash proceeds from the completion of the sale to Island.

The aggregate preliminary purchase price for the Insignia Acquisition was approximately \$328.0 million, which includes: (1) \$267.9 million in cash paid for shares of Insignia's outstanding common stock, valued at \$11.156 per share, (2) \$100.00 per share plus accrued and unpaid dividends paid to the owners of Insignia's outstanding Series A preferred stock and Series B preferred stock totaling \$38.2 million, (3) cash payments of \$7.9 million to holders of Insignia's vested and unvested warrants and options and (4) \$14.0 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.



**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The preliminary purchase accounting adjustments related to the Insignia Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, July 23, 2003. The final valuation of the net assets acquired is expected to be completed as soon as practicable, but no later than one year from the acquisition date. Given the size and complexity of the acquisition, the fair valuation of certain assets acquired, primarily net deferred tax assets, is still preliminary. Additionally, adjustments to the estimated liabilities assumed in connection with the Insignia Acquisition may still be required. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition (in thousands):

**Fair Value of Assets Acquired and Liabilities Assumed****At July 23, 2003**

Current assets	\$ 270,641
Property and equipment, net	32,532
Goodwill	237,569
Other intangible assets, net	102,748
Other assets	30,776
	<hr/>
Total assets acquired	674,266
	<hr/>
Current liabilities	168,574
Liabilities assumed in connection with the Insignia Acquisition	87,739
Notes payable	43,000
Other liabilities	46,994
	<hr/>
Total liabilities assumed	346,307
	<hr/>
Net assets acquired	\$ 327,959
	<hr/>

The following is a summary of the intangible assets acquired in connection with the Insignia Acquisition (dollars in thousands):

	Weighted Average Amortization Period	July 23, 2003 <hr/> Gross Carrying Amount	December 31, 2003 <hr/> Accumulated Amortization	Net Carrying Amount
	<hr/>	<hr/>	<hr/>	<hr/>
Backlog	(1)	\$ 72,503	\$ (59,108)	\$ 13,395
Trade name	n/a	19,826		19,826
Management contracts	5 years	4,611	(490)	4,121

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Other	6 years	5,808	(821)	4,987
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(1) Weighted average amortization period is not determinable. See Note 8 for additional information.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and Insignia redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we have accrued certain liabilities in accordance with Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. These liabilities assumed in connection with the Insignia Acquisition consist of the following (dollars in thousands):

	2003 Charge to Goodwill	Utilized to Date	To be Utilized
Severance	\$ 30,706	\$ 13,676	\$ 17,030
Lease termination costs	28,922	3,065	25,857
Change of control payments	10,451	10,451	
Costs associated with exiting contracts	8,921	7,632	1,289
Legal settlements anticipated	8,739	2,900	5,839
	<u>\$ 87,739</u>	<u>\$ 37,724</u>	<u>\$ 50,015</u>

The liability for severance covers approximately 450 employees with the bulk of the terminations occurring in the U.S. A majority of the amount unpaid as of December 31, 2003 represents future payments required as per severance agreements for the top six former senior executives of Insignia. These amounts will be paid as required by their severance agreements up through their expiration dates of December 31, 2004 and December 31, 2005. All other outstanding liabilities for severance are expected to be paid in 2004. We identified approximately 50 redundant facilities consisting of both sales and corporate offices. A total accrual for lease termination costs of \$28.9 million was established for office closures, the majority of which were located in the U.S. The liability for lease termination costs will be paid over the remaining contract periods through 2012. The change of control payments represented amounts paid to the top six former senior executives of Insignia as a direct result of the Insignia Acquisition as stipulated in their employment contracts. In connection with the Insignia Acquisition, we incurred costs associated with the termination of contracts that Insignia entered into prior to the Insignia Acquisition. We expect to pay all remaining costs relating to exiting these contracts in 2004. We have accrued approximately \$8.7 million to cover our exposure in various lawsuits involving Insignia that were pending prior to the Insignia Acquisition. These liabilities will be paid as each case is settled.

**4. 2001 Merger**

On July 20, 2001, we acquired CBRE pursuant to an Amended and Restated Agreement and Plan of Merger dated May 31, 2001 (the 2001 Merger Agreement) among us, CBRE and Blum CB. At the effective time of the 2001 Merger, CBRE became our wholly owned subsidiary. Pursuant to the terms of the 2001 Merger Agreement, each issued and outstanding share of common stock of CBRE was converted into the right to receive \$16.00 in cash, except for: (i) shares of common stock of CBRE owned by us and Blum CB immediately prior to the 2001 Merger, totaling 7,967,774 shares, which were cancelled, (ii) treasury shares and shares of common stock of CBRE owned by any of its subsidiaries, which were cancelled and (iii) shares of CBRE held by stockholders who perfected appraisal rights for such shares in accordance with Delaware law. All shares of common stock of CBRE outstanding prior to the 2001 Merger were acquired by us and subsequently cancelled. Immediately prior to the 2001 Merger, the following, collectively referred to as the buying group, contributed to us all the shares of CBRE's common stock that he or it directly owned in exchange for three shares of our Class B common stock: Blum Strategic, FS Equity Partners III, L.P. (FSEP III), a Delaware limited partnership, FS Equity Partners International, L.P. (FSEP International), a Delaware limited partnership, The Koll Holding

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Company, a California corporation, Frederic V. Malek, a director of our company and CBRE, Raymond E. Wirta, the Chief Executive Officer and a director of our company and CBRE, and Brett White, the President and a director of our company and CBRE. Such shares of common stock of CBRE, which totaled 7,967,774 shares of common stock,

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

were then cancelled. In addition, we offered to purchase for cash, options outstanding to acquire common stock of CBRE at a purchase price per option equal to the greater of the amount by which \$16.00 exceeded the exercise price of the option, if at all, or \$1.00. In connection with the 2001 Merger, CBRE purchased its outstanding options on our behalf, which were recorded as merger-related and other nonrecurring charges by CBRE in the period from January 1 to July 20, 2001.

The funding to complete the 2001 Merger, as well as the refinancing of substantially all of the outstanding indebtedness of CBRE, was obtained through: (i) a cash contribution of \$74.8 million from the sale of our Class B common stock for \$5.77 per share, (ii) sale of shares of our Class A common stock for \$5.77 per share to employees and independent contractors of CBRE, (iii) sale of 1,732,102 shares of our Class A common stock to CalPERS for \$5.77 per share, (iv) issuance and sale of 65,000 units for \$65.0 million to DLJ Investment Funding, Inc. and other purchasers, which units consisted of \$65.0 million in aggregate principal amount of 16% Senior Notes due July 20, 2011 and 941,764 shares of our Class A common stock, (v) issuance and sale by Blum CB of \$229.0 million in aggregate principal amount of 11 1/4% Senior Subordinated Notes due June 15, 2011 for \$225.6 million (which were assumed by CBRE in connection with the 2001 Merger) and (vi) borrowings by CBRE under a new \$325.0 million senior credit facility with CSFB and other lenders.

Following the 2001 Merger, the common stock of CBRE was delisted from the NYSE. CBRE also successfully completed a tender offer and consent solicitation for all of the outstanding principal amount of its 8 7/8% Senior Subordinated Notes due 2006 (the Subordinated Notes). The Subordinated Notes were purchased at \$1,079.14 for each \$1,000 principal amount of Subordinated Notes, which included a consent payment of \$30.00 per \$1,000 principal amount of Subordinated Notes. We also repaid the outstanding balance of CBRE's existing revolving credit facility. We entered into the 2001 Merger in order to enhance the flexibility to operate CBRE's existing businesses and to develop new ones.

**5. Basis of Preparation**

The accompanying consolidated balance sheets as of December 31, 2003 and 2002, and the consolidated statements of operations, cash flows and stockholders' equity for the years ended December 31, 2003 and 2002 and for the period from February 20 (inception) to December 31, 2001, reflect our consolidated balance sheets, results of operations, cash flows and stockholders' equity from our company's inception and also include the consolidated financial statements of CBRE from the date of the 2001 Merger, including all material adjustments required under the purchase method of accounting. For purposes of Regulation S-X, CBRE is considered our predecessor. As such, the historical financial statements of CBRE prior to the 2001 Merger are included in the accompanying consolidated financial statements, including the consolidated statements of operations, cash flows and stockholders' equity for the period from January 1 to July 20, 2001 (the Predecessor financial statements). The Predecessor financial statements have not been adjusted to reflect our acquisition of CBRE. As such, our consolidated financial statements after the 2001 Merger are not directly comparable to the Predecessor financial statements prior to the 2001 Merger. Additionally, the accompanying consolidated balance sheet as of December 31, 2003 and the consolidated statements of operations and cash flows for the year ended December 31, 2003 include the consolidated financial statements of Insignia from July 23, 2003, the date of the Insignia Acquisition, including all material adjustments required under the purchase method of accounting. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our financial statements prior to the Insignia Acquisition.

Unaudited pro forma results, assuming the Insignia Acquisition had occurred as of January 1, 2003 and 2002 for purposes of the 2003 and 2002 pro forma disclosures, respectively, are presented below. These unaudited pro forma results have been prepared for comparative purposes only



and include certain adjustments, such as increased amortization expense as a result of intangible assets acquired in the Insignia Acquisition as

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

well as higher interest expense as a result of debt incurred to finance the Insignia Acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the Insignia Acquisition occurred on January 1, 2003 or 2002, respectively, and may not be indicative of future operating results (dollars in thousands, except share data):

	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	
Revenue	\$ 1,948,827	\$ 1,744,162
Operating income	\$ 17,871	\$ 59,380
Net loss	\$ (43,923)	\$ (20,443)
Basic and diluted loss per share	\$ (0.70)	\$ (0.33)
Weighted average shares outstanding for basic and diluted loss per share	62,478,565	62,425,796

**6. Restricted Cash**

Included in the accompanying consolidated balance sheet as of December 31, 2003 is restricted cash of \$14.9 million, which primarily consists of cash pledged to secure the guarantee of notes issued in connection with previous acquisitions by Insignia in the U.K. The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

**7. Property and Equipment**

Property and equipment consists of the following (dollars in thousands):

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Leasehold improvements	\$ 48,741	\$ 20,000
Furniture and equipment	162,157	116,268
Equipment under capital leases	12,820	13,925
	223,718	150,193
Accumulated depreciation	(110,149)	(83,559)

Property and equipment, net	<u>\$ 113,569</u>	<u>\$ 66,634</u>
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Depreciation expense was \$28.3 million for the year ended December 31, 2003, \$20.8 million for the year ended December 31, 2002, \$9.1 million for the period from February 20 (inception) to December 31, 2001 and \$12.6 million for the period from January 1 to July 20, 2001.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**8. Goodwill and Other Intangible Assets**

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite useful lives are no longer amortized but are subject to impairment tests on an annual basis, at a minimum, or whenever events or circumstances occur indicating that those assets might be impaired. We adopted the non-amortization provisions of SFAS No. 142 on July 20, 2001, the effective date of the 2001 Merger. The following table presents the impact of SFAS No. 142 on, our net (loss) income and net (loss) earnings per share had the standard been in effect for the period from January 1 to July 20, 2001 (dollars in thousands, except share data):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	
	2003	2002	2001	2001
Reported net (loss) income	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add back amortization of goodwill, net of taxes				7,701
Adjusted net (loss) income	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (26,319)
Basic (loss) earnings per share:				
Reported (loss) earnings per share	\$ (0.68)	\$ 0.45	\$ 0.80	\$ (1.60)
Add back goodwill amortization per share				0.36
Adjusted basic (loss) earnings per share	\$ (0.68)	\$ 0.45	\$ 0.80	\$ (1.24)
Diluted (loss) earnings per share:				
Reported (loss) earnings per share	\$ (0.68)	\$ 0.44	\$ 0.79	\$ (1.60)
Add back goodwill amortization per share				0.36
Adjusted diluted (loss) earnings per share	\$ (0.68)	\$ 0.44	\$ 0.79	\$ (1.24)

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The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. We are in the process of finalizing the fair value of all assets acquired and liabilities assumed as of July 23, 2003, the effective date of the Insignia Acquisition (See Note 3 for additional information). The following table summarizes the estimated goodwill allocated to our operating segments in connection with the Insignia Acquisition as well as other changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 (dollars in thousands):

	<u>Americas</u>	<u>EMEA</u>	<u>Asia Pacific</u>	<u>Total</u>
Balance at January 1, 2002	\$ 510,188	\$ 96,637	\$ 2,718	\$ 609,543
Purchase accounting adjustments related to acquisitions	15,321	5,809	688	21,818
Reclassified (to) from intangibles assets	(57,841)	3,617		(54,224)
	<u>467,668</u>	<u>106,063</u>	<u>3,406</u>	<u>577,137</u>
Balance at December 31, 2002				
Purchase accounting adjustments related to acquisitions	130,771	111,043	607	242,421
	<u>\$ 598,439</u>	<u>\$ 217,106</u>	<u>\$ 4,013</u>	<u>\$ 819,558</u>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other intangible assets totaled \$131.7 million and \$91.1 million, net of accumulated amortization of \$73.5 million and \$7.7 million, as of December 31, 2003 and 2002, respectively, and are comprised of the following (dollars in thousands):

	December 31,			
	2003		2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Unamortizable intangible assets</b>				
Trademarks	\$ 63,700		\$ 63,700	
Trade name	19,826			
<b>Total</b>	<b>\$ 83,526</b>		<b>\$ 63,700</b>	
<b>Amortizable intangible assets</b>				
Backlog	\$ 72,503	\$ (59,108)	\$	\$
Management contracts	25,649	(9,708)	18,887	(5,605)
Loan servicing rights	17,694	(3,812)	16,234	(2,134)
Other	5,808	(821)		
<b>Total</b>	<b>\$ 121,654</b>	<b>\$ (73,449)</b>	<b>\$ 35,121</b>	<b>\$ (7,739)</b>

In accordance with SFAS No. 141, *Business Combinations*, trademarks of \$63.7 million were separately identified as a result of the 2001 Merger. As a result of the Insignia Acquisition, a \$19.8 million trade name was separately identified, which represents the Richard Ellis trade name in the U.K. that was owned by Insignia prior to the Insignia Acquisition. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

Backlog represents the fair value of Insignia's net revenue backlog as of July 23, 2003, which was acquired as part of the Insignia Acquisition. The backlog consists of the net commissions receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia Acquisition. This intangible asset is being amortized as cash is received or upon final closing of these pending transactions.

Management contracts are primarily comprised of property management contracts in the U.S., the U.K., France and other European operations, as well as valuation services and fund management contracts in the U.K. These management contracts are being amortized over estimated useful lives of up to ten years.

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Loan servicing rights represent the fair value of servicing assets in our mortgage banking line of business in the U.S., the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over estimated useful lives of up to ten years.

Other amortizable intangible assets represent other intangible assets acquired as a result of the Insignia Acquisition, including an intangible asset recognized for other non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France. These other intangible assets are being amortized over estimated useful lives of up to 20 years.

Amortization expense related to intangible assets was \$64.3 million for the year ended December 31, 2003, \$3.8 million for the year ended December 31, 2002, \$3.1 million for the period from February 20 (inception) to December 31, 2001 and \$13.1 million for the period from January 1 to July 20, 2001. The estimated amortization expense for the five years ending December 31, 2008 approximates \$20.3 million, \$6.5 million, \$5.1 million, \$4.2 million and \$3.4 million, respectively.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Investments in and Advances to Unconsolidated Subsidiaries**

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting and as of December 31, 2003 and 2002 include the following (dollars in thousands):

	Interest	December 31,	
		2003	2002
Global Innovation Partners, L.L.C.	4.9%	\$ 14,037	\$ 6,228
CB Richard Ellis Strategic Partners, L.P.	2.9%	10,353	10,690
CB Commercial/Whittier Partners, L.P.	50.0%	8,590	8,816
CB Richard Ellis Strategic Partners II, L.P.	3.4%	7,322	5,965
Ikoma CB Richard Ellis KK	22.8%	4,973	4,782
Building Technology Engineers	49.9%	2,553	1,931
Glades Plaza, L.P.	20.0%	2,451	
KB Opportunity Investors	45.0%	1,723	1,857
CB Richard Ellis/Pittsburgh, L.P.	50.0%	1,221	1,461
Other	*	15,138	8,478
<b>Total</b>		<b>\$ 68,361</b>	<b>\$ 50,208</b>

\* Various interests with varying ownership rates.

Combined condensed financial information for our investments in and advances to unconsolidated subsidiaries are as follows (dollars in thousands):

Condensed Balance Sheets Information:

	December 31,	
	2003	2002
Current assets	\$ 208,743	\$ 127,635
Noncurrent assets	\$ 2,040,138	\$ 1,552,546



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Current liabilities	\$ 154,778	\$ 108,463
Noncurrent liabilities	\$ 969,993	\$ 664,241
Minority interest	\$ 4,600	\$ 3,938

Condensed Statements of Operations Information:

	Year Ended December 31,		
	2003	2002	2001
Net revenue	\$ 450,542	\$ 349,121	\$ 286,138
Income from operations	\$ 111,585	\$ 78,171	\$ 60,259
Net income	\$ 174,629	\$ 81,498	\$ 30,098

Included in other current assets in the accompanying consolidated balance sheet was a note receivable from our equity investment in Investor 1031, L.L.C. in the amount of \$1.2 million as of December 31, 2002. This note was issued on June 20, 2002, bore interest at 20.0% per annum and was due for repayment on July 15, 2003. This note and related interest were paid in full during the second quarter of 2003.

Our investment management business involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage, appraisal and other

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professional services to these equity investees and earned revenues from these co-investments of \$21.6 million, \$22.4 million and \$15.4 million during the years ended December 31, 2003, 2002 and 2001, respectively.

In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C. (CBRE Investors), entered into a joint venture, Global Innovation Partners, with CalPERS. This joint venture targets real estate and private equity investments and expected opportunities created by the convergence of technology and real estate. The managing member of the joint venture is 50% owned by one of our subsidiaries. In connection with formation of the joint venture, CBRE Investors, CalPERS and some of our employees entered into an aggregate of \$526.0 million of capital commitments to Global Innovations Partners, of which CalPERS committed an aggregate of \$500.0 million.

**10. Other Assets**

The following table summarizes the items included in other assets (dollars in thousands):

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Property held for sale	\$ 50,615	\$ 45,883
Deferred financing costs, net	29,898	20,467
Employee loans (1)	17,622	4,089
Property investments held pursuant to the Island Purchase Agreement (2)	7,457	
Cost investments	7,096	6,524
Long-term trade receivables, net	6,542	1,128
Notes receivable	5,640	4,943
Deposits	4,621	8,714
Miscellaneous	3,221	2,109
<b>Total</b>	<b>\$ 132,712</b>	<b>\$ 93,857</b>

(1) See Note 22 for additional information.

(2) Represents property investments held for the benefit of Island Fund pursuant to the Island Purchase Agreement pending the receipt of third party consents (see Note 3 for additional information).

**11. Employee Benefit Plans**

*Stock Incentive Plans and Warrants.*

*2001 Stock Incentive Plan.* Our 2001 stock incentive plan was adopted by our board of directors and our stockholders on June 7, 2001. The stock incentive plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. A total of 18,013,857 shares of Class A common stock have been reserved for issuance under the stock incentive plan, and 9,698,289 shares remained available for future issuance as of December 31, 2003. The number of shares issued or reserved pursuant to the stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. Class A common stock covered by awards that expire, terminate or lapse will again be available for option or grant under the stock incentive plan. No award may be granted under the stock incentive plan after June 7, 2011, but awards granted prior to June 7, 2011 may extend beyond that date. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In connection with the 2001 Merger, we offered and sold shares of our Class A common stock to certain of our employees that were designated by our board of directors in consultation with Ray Wirta, our Chief Executive Officer, and Brett White, our President. If each of these designated employees subscribed for a specified number of shares that was determined by our board of directors, they were then entitled to receive a grant of options to acquire our Class A common stock. As part of the 2001 Merger, we issued and sold 1,172,904 shares of our Class A common stock and granted 4,213,045 options to acquire our Class A common stock at an exercise price of \$5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending on July 20, 2006.

On September 16, 2003, we issued to employees 2,427,714 options to acquire our Class A common stock at an exercise price of \$5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending September 16, 2008.

Since the 2001 Merger, there have been instances where employees have forfeited their options as a result of the termination of their employment with our company. In these instances, we have generally issued individual grants to replacement hires made as well as to retain certain key employees. Additionally, individual grants of options and issuances and sales of shares of Class A common stock have been made from time to time to key new hires. As of December 31, 2003, a total of 245,958 shares of our Class A common stock had been issued and sold and 847,488 options to acquire our Class A common stock had been granted to individuals under the instances described above since the 2001 Merger. These options have exercise prices of \$5.77 per share, terms of ten years and vest and are exercisable in 20% annual increments over various five-year periods through November 2008.

*Warrants.* Pursuant to an agreement entered into in connection with the 2001 Merger, we issued to FSEP III and FSEP International warrants to acquire 708,019 shares of our Class B common stock at an exercise price of \$10.825 per share in exchange for the cancellation of previously outstanding warrants to acquire 364,884 shares of CBRE common stock. Subject to limited exceptions, these warrants do not vest until August 26, 2007, expire on August 27, 2007 and will become fully vested and exercisable upon a change in control of our company.

*Option Plans and Warrants of CBRE, our Predecessor.* The options and warrants outstanding prior to the 2001 Merger were issued in connection with various acquisitions and employee stock-based compensation plans and had exercise prices that ranged from \$10.00 to \$36.75 with vesting periods that ranged up to 5 years and expired at various dates through August 2010.

At the effective time of the 2001 Merger, each holder of an option to acquire CBRE's common stock, whether or not vested, had the right to receive, in consideration for the cancellation of his or her options, an amount per share of common stock equal to the greater of (i) the amount by which \$16.00 exceeded the exercise price of the option, if any, or (ii) \$1.00, reduced in each case by applicable withholding taxes. Warrants to acquire 84,988 shares of CBRE beneficially owned by Ray Wirta and one of the other members of the CBRE board of directors prior to the 2001 Merger were cancelled in exchange for a cash payment of \$1.00 per share of common stock underlying the warrants. Warrants held by non-employees, other than FS Equity Partners III, L.P. and FS Equity Partners International, L.P. who received warrants to acquire shares of CBRE's Class B common stock, were cancelled and no payments were made to such shareholders. As of December 31, 2001, there were no options or warrants outstanding to acquire CBRE's stock.



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A summary of the status of our option plans and warrants, as well as our Predecessor's, is presented in the tables below:

	<b>CB Richard Ellis Group</b>			
	<b>Weighted</b>		<b>Weighted</b>	
	<b>Average</b>		<b>Average</b>	
	<b>Exercise</b>	<b>Exercisable</b>	<b>Exercise</b>	<b>Exercise</b>
	<b>Shares</b>	<b>Price</b>	<b>Shares</b>	<b>Price</b>
Outstanding at February 20, 2001 (Inception)		\$		
Granted	4,921,064	6.50		
Forfeited	(47,629)	5.77		
Outstanding at December 31, 2001	4,873,435	6.51		
Granted	343,297	5.77		
Forfeited	(485,806)	5.77		
Outstanding at December 31, 2002	4,730,926	6.53	769,261	\$ 5.77
Granted	2,931,905	5.77		
Forfeited	(58,107)	5.77		
Outstanding at December 31, 2003	7,604,724	\$ 6.24	1,538,575	\$ 5.77
	<b>Predecessor Company</b>			
	<b>Weighted</b>		<b>Weighted</b>	
	<b>Average</b>		<b>Average</b>	
	<b>Exercise</b>	<b>Exercisable</b>	<b>Exercise</b>	<b>Exercise</b>
	<b>Shares</b>	<b>Price</b>	<b>Shares</b>	<b>Price</b>
Outstanding at December 31, 2000	3,340,010	\$ 21.25	1,824,665	\$ 23.90
Exercised	(86,521)	12.89		
Forfeited/Expired	(93,370)	20.27		

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Paid and/or cancelled as a result of the 2001 Merger	(3,160,119)	21.50
Outstanding at July 20, 2001		\$

Option plans and warrants outstanding at December 31, 2003 and their related weighted average exercise price and life information is presented below:

	Outstanding Options and Warrants			Exercisable Options and Warrants	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5.77	6,896,705	8.49	\$ 5.77	1,538,575	\$ 5.77
\$10.825	708,019	3.66	10.825		
	<u>7,604,724</u>		<u>\$ 6.24</u>	<u>1,538,575</u>	<u>\$ 5.77</u>

*Deferred Compensation Plan.* Our deferred compensation plan (the DCP) historically has permitted a select group of management employees, as well as other highly compensated employees, to elect, immediately prior to the beginning of each calendar year, to defer receipt of some or all of their compensation for the next year until a

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

future distribution date and have it credited to one or more of several funds in the DCP. The DCP permits participants to elect in-service distributions, which may not begin less than three years following the election and post-employment distributions. There is limited flexibility to change distribution elections once made. A participant may elect to receive a distribution of his or her vested accounts at any time subject to a charge equal to 7.5% of the amount to be distributed. The investment alternatives available to participants in connection with their deferrals include two interest index funds and an insurance fund in which gains or losses on deferrals are measured by one or more of approximately 30 mutual funds. In addition, prior to the 2001 Merger, participants were entitled to invest their deferrals in stock fund units that entitled the participants to receive future distributions of shares of CBRE common stock, which stock fund units now represent the right to receive future distributions of shares of our common stock.

Each stock fund unit that was unvested prior to the 2001 Merger remained in participants' accounts, but after the 2001 Merger was converted to the right to receive three shares of our Class A common stock. Subsequent to our reverse stock split which is expected to occur during May 2004, each stock fund unit will be converted to the right to receive 0.9238 shares of our Class A common stock. These unvested stock fund units have been accounted for as a deferred compensation asset and are being amortized as compensation expense over the remaining vesting period for such stock fund units in accordance with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, with \$1.8 million charged to compensation expense for the years ended December 31, 2003 and 2002, and \$0.9 million charged to compensation expense for the period from February 20 (inception) to December 31, 2001. The accompanying consolidated balance sheets include the unamortized balances totaling \$1.4 million and \$1.9 million in other current assets as of December 31, 2003 and 2002, respectively, and \$1.4 million in other assets as of December 31, 2002. Subsequent to the 2001 Merger, no new deferrals have been allowed in stock fund units.

In 2001, we announced a match for the Plan Year 2000, effective July 2001, in the amount of \$8.0 million to be invested in an interest bearing account on behalf of participants. The 2000 Company Match vests at 20% per year and will be fully vested by December 2005. The related compensation expense is being amortized over the vesting period. The amounts charged to expense for the 2000 Company match were \$1.7 million for the years ended December 31, 2003 and 2002, \$0.7 million for the period from February 20 (inception) to December 31, 2001 and \$0.2 million for the period from January 1 to July 20, 2001.

Included in our accompanying consolidated balance sheets is an accumulated non-stock liability of \$138.0 million and \$106.3 million at December 31, 2003 and 2002, respectively, and the assets (in the form of insurance) set aside to cover the liability of \$76.4 million and \$63.6 million as of December 31, 2003 and 2002, respectively. In addition, our stock fund unit deferrals included in additional paid-in capital totaled \$18.1 million and \$18.2 million at December 31, 2003 and 2002, respectively.

Early in the fourth quarter of 2003, we announced that effective January 1, 2004, we will close the DCP to new participants. Currently, the DCP is accepting compensation deferrals from participants who have a balance, meet the eligibility requirements and elect to participate, up to a maximum annual contribution amount of \$250,000 per participant. We are currently reviewing the future status of this plan.

*Stock Purchase Plans.* Prior to the 2001 Merger, CBRE had restricted stock purchase plans covering select key executives including senior management. A total of 500,000 and 550,000 shares of common stock were reserved for issuance under CBRE's 1999 and 1996 Equity Incentive Plans, respectively. The shares were issued to senior executives for a purchase price equal to the greater of \$18.00 and \$10.00 per share or fair



market value, respectively. The purchase price for these shares was paid either in cash or by delivery of a full recourse promissory note. All promissory notes related to the 1999 Equity Incentive Plan were repaid as part of the 2001 Merger. The majority of the notes related to the 1996 Equity Incentive Plan were also repaid, with the remaining unpaid outstanding balance of \$0.6 million as of December 31, 2003 and 2002, included in notes receivable from

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

sale of stock in the accompanying consolidated statements of stockholders' equity. As part of the 2001 Merger, the CBRE shares related to these outstanding promissory notes were exchanged for three shares of our Class B common stock.

*Bonuses.* We have bonus programs covering select key employees, including senior management. Awards are based on the position and performance of the employee and the achievement of pre-established financial, operating and strategic objectives. The amounts charged to expense for bonuses were \$51.8 million for the year ended December 31, 2003, \$40.2 million for the year ended December 31, 2002, \$18.0 million for the period from February 20 (inception) to December 31, 2001 and \$16.5 million for the period from January 1 to July 20, 2001.

*401(k) Plans.* Our CB Richard Ellis 401(k) Plan (401(k) Plan) is defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. Generally, our U.S. employees are eligible to participate in the plan if the employee is at least 21 years old. The 401(k) Plan provides for participant contributions as well as discretionary employer contributions. A participant is allowed to contribute to the 401(k) Plan from 1% to 15%, in whole percentages, of his or her compensation, subject to limits imposed by the U.S. Internal Revenue Code. Each year, we determine the amount of employer contributions, if any, we will contribute to the 401(k) Plan based on the performance and profitability of our consolidated U.S. operations. Our contributions for the year are allocated to participants who are actively employed on the last day of the plan year in proportion to each participant's pre-tax contributions for that year, up to 5% of the participant's compensation. In connection with the 401(k) Plan, we incurred \$2.2 million for the year ended December 31, 2003, no expense for the year ended December 31, 2002, \$0.8 million for the period from February 20 (inception) to December 31, 2001 and no expense for the period from January 1 to July 20, 2001.

In connection with the 2001 Merger, each share of common stock of CBRE formerly held by the 401(k) Plan and credited to participant accounts was exchanged for \$16.00 in cash. In addition, the 401(k) Plan was amended to eliminate the common stock of CBRE as an investment option within the 401(k) Plan after July 20, 2001. The cash received for the shares of CBRE common stock was available for reinvestment in one or more of the investment alternatives available within the 401(k) Plan in accordance with the terms of the plan, including a new company stock fund in which employees could invest on a one-time basis in our Class A shares of common stock. Subsequent to the 2001 Merger, participants are no longer entitled to purchase additional shares of our Class A or Class B common stock for allocation to their account balances.

In connection with the Insignia Acquisition, we assumed Insignia's existing 401(k) Retirement Savings Plan (Insignia 401(k) Plan) and its 401(k) Restoration Plan.

The Insignia 401(k) Plan covered substantially all Insignia employees in the U.S. Insignia made contributions equal to 25% of the employees' contributions up to a maximum of 6% of the employees' compensation and participants fully vested in employees' contributions after five years. Insignia's contribution was discontinued effective July 23, 2003. Upon the close of the Insignia Acquisition, participants in the Insignia 401(k) Plan were required, instead, to join our 401(k) Plan. Currently, only loan payments are being accepted into the former Insignia 401(k) Plan until we receive IRS approval to terminate the plan and transfer plan balances into our 401(k) Plan.

The 401(k) Restoration Plan allowed designated executives of Insignia and certain participating affiliated employees in the Insignia 401(k) Plan to defer the receipt of a portion of their compensation in excess of the amount of compensation that was permitted to be contributed to the

Insignia 401(k) Plan. This plan ceased to accept deferrals on July 23, 2003.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Pension Plans.* The London-based firm of Hillier Parker May & Rowden, which we acquired in 1998, had a contributory defined benefit pension plan. A subsidiary of Insignia, which we acquired in connection with the Insignia Acquisition in 2003, had a contributory defined benefit pension plan in the U.K. Our subsidiaries based in the U.K. maintain these plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined and as required by applicable laws and regulations. Pension expense totaled \$7.8 million for the year ended December 31, 2003, \$3.6 million for the year ended December 31, 2002, \$1.4 million for the period February 20 (inception) to December 31, 2001, and \$0.9 million for the period from January 1 to July 20, 2001.

The following table sets forth a reconciliation of the benefit obligation, plan assets, plan's funded status and amounts recognized in the accompanying consolidated balance sheets for our defined benefit pension plans (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of period	\$ 96,734	\$ 74,418
Service cost	6,248	5,578
Interest cost	7,573	4,764
Actuarial loss	7,472	3,997
Insignia Acquisition	64,392	
Benefits paid, net of plan participants' contributions	(1,942)	(713)
Foreign currency translation	19,709	8,690
	<b>2003</b>	<b>2002</b>
Benefit obligation at end of period	\$ 200,186	\$ 96,734
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of period	\$ 76,430	\$ 80,950
Actual return on plan assets	18,317	(13,777)
Company contributions	2,850	2,299
Insignia Acquisition	45,295	
Benefits paid, net of plan participants' contributions	(1,942)	(713)
Foreign currency translation	15,008	7,671
	<b>2003</b>	<b>2002</b>
Fair value of plan assets at end of period	\$ 155,958	\$ 76,430
Funded status	\$ (44,228)	\$ (20,304)
Unrecognized net actuarial loss	29,331	33,350
Company contributions in the post-measurement period	485	530
Net amount recognized	\$ (14,412)	\$ 13,576

	<u>          </u>	<u>          </u>
<b>Net amount recognized in the consolidated balance sheets</b>		
Accrued benefit liability	\$ (35,998)	\$ (10,766)
Accumulated other comprehensive loss	21,586	24,342
	<u>          </u>	<u>          </u>
	\$ (14,412)	\$ 13,576
	<u>          </u>	<u>          </u>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted average assumptions used to determine our projected benefit obligation were as follows:

	Year Ended December 31,	
	2003	2002
Discount rate	5.60%	5.60%
Expected return on plan assets	7.90%	8.20%
Rate of compensation increase	4.40%	4.30%

Weighted average assumptions used to determine our net periodic pension cost were as follows:

	CB Richard Ellis Group		Predecessor Company	
	Year Ended December 31,	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Period From January 1 to July 20,
	2003	2002	2001	2001
Discount rate	5.56%	6.00%	6.00%	6.00%
Expected return on plan assets	7.88%	8.00%	7.50%	7.75%
Rate of compensation increase	4.24%	4.50%	4.75%	5.00%

Net periodic pension cost consisted of the following (in thousands):

	CB Richard Ellis Group		Predecessor Company
	Year Ended	Period From February	Period From January 1

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	<u>December 31,</u>		<b>20</b>	<b>to July 20,</b>
	<u>2003</u>	<u>2002</u>	<b>(inception)</b>	<u>2001</u>
			<b>to</b>	
			<b>December 31,</b>	
			<u>2001</u>	
Service cost	\$ 6,248	\$ 5,578	\$ 2,325	\$ 2,875
Interest cost	7,573	4,764	2,059	2,316
Expected return on plan assets	(8,023)	(6,767)	(2,945)	(4,257)
Amortization of unrecognized net gain	2,024			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net periodic pension cost	\$ 7,822	\$ 3,575	\$ 1,439	\$ 934
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Debt**

Total debt consists of the following (dollars in thousands):

	December 31,	
	2003	2002
<b>Long-Term Debt:</b>		
Senior secured term loans, with interest ranging from 4.40% to 7.50%, due from 2003 through 2008	\$ 297,500	\$ 220,975
11 1/4% Senior Subordinated Notes, net of unamortized discount of \$2.8 million and \$3.1 million at December 31, 2003 and 2002, respectively, due in 2011	226,173	225,943
9 3/4% Senior Notes due in 2010	200,000	
16% Senior Notes, net of unamortized discount of \$2.8 million and \$5.1 million at December 31, 2003 and 2002, respectively, due in 2011	35,472	61,863
Non-recourse mortgage debt related to property held for sale with interest at one-month Yen LIBOR plus 3.50% and a maturity date of July 31, 2008	41,753	
Capital lease obligations, mainly for automobiles and telephone equipment, with interest ranging from 6.50% to 9.74%, due through 2007	259	763
Other	1,548	171
<b>Subtotal</b>	<b>802,705</b>	<b>509,715</b>
Less current maturities of long-term debt	11,285	10,711
<b>Total long-term debt</b>	<b>791,420</b>	<b>499,004</b>
<b>Short-Term Borrowings:</b>		
Warehouse Line of Credit, with interest at 1.00% over the Residential Funding Corporation base rate with a maturity date of August 31, 2004	230,790	63,140
Non-recourse mortgage debt related to property held for sale with interest at one-month Yen LIBOR plus 3.50% and a maturity date of June 18, 2003		40,005
Insignia acquisition loan notes, with interest ranging from 1.53% to 3.00%, due on demand	12,191	
Westmark Senior Notes, with interest ranging from 4.40% to 9.00%, due on demand	12,129	12,129
Euro cash pool loan, with interest at 2.50% over the applicable HSBC base rate and no stated maturity date	11,517	7,904
Other	3,510	16
<b>Total short-term borrowings</b>	<b>270,137</b>	<b>123,194</b>
Add current maturities of long-term debt	11,285	10,711
<b>Total current debt</b>	<b>281,422</b>	<b>133,905</b>
<b>Total debt</b>	<b>\$ 1,072,842</b>	<b>\$ 632,909</b>



Future annual aggregate maturities of total consolidated debt at December 31, 2003 are as follows (dollars in thousands): 2004 \$281,422; 2005 \$10,367; 2006 \$10,017; 2007 \$10,017; 2008 \$299,270; and \$461,749 thereafter.

In connection with the 2001 Merger, we entered into a credit agreement (the Credit Facility) with CSFB and other lenders. In connection with the Insignia Acquisition, we entered into an amended and restated credit agreement with CSFB and other lenders. On October 14, 2003, we refinanced all of the outstanding loans under that agreement. As part of this refinancing, we entered into a new amended and restated credit agreement. The

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

prior credit facilities were, and the current amended and restated credit facilities continue to be, jointly and severally guaranteed by us and each of our domestic subsidiaries and are secured by a pledge of substantially all of our assets.

The Credit Facility entered into in connection with the 2001 Merger included the following: (1) a Tranche A term facility of \$50.0 million maturing on July 20, 2007, which was fully drawn in connection with the 2001 Merger; (2) a Tranche B term facility of \$185.0 million maturing on July 18, 2008, which was fully drawn in connection with the 2001 Merger; and (3) a revolving line of credit of \$90.0 million, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. Borrowings under the Tranche A term facility and revolving facility bore interest at varying rates based on our option, at either the applicable LIBOR rate plus 2.50% to 3.25% or the alternate base rate plus 1.50% to 2.25%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which was defined in the credit agreement. The alternate base rate is higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. Borrowings under the Tranche B term facility bore interest at varying rates based on our option at either the applicable LIBOR plus 3.75% or the alternate base rate plus 2.75%.

The amended and restated credit facilities entered into in connection with the Insignia Acquisition included the following: (1) a Tranche A term facility of \$50.0 million maturing on July 20, 2007; (2) a Tranche B term facility of \$260.0 million maturing on July 18, 2008, \$75.0 million of which was drawn in connection with the Insignia Acquisition; and (3) a revolving line of credit of \$90.0 million, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche A term facility and revolving facility bore interest at varying rates based on our option, at either the applicable LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which is defined in the amended and restated credit agreement. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche B term facility bore interest at varying rates based on our option at either the applicable LIBOR plus 4.25% or the alternate base rate plus 3.25%.

In connection with the October 14, 2003 refinancing of our credit facilities and the signing of a new amended and restated credit agreement, the former Tranche A term facility and Tranche B term facility were combined into a new single term loan facility. The new term loan facility, of which \$300.0 million was drawn on October 14, 2003, requires quarterly principal payments of \$2.5 million through September 30, 2008 and matures on December 31, 2008. Borrowings under the new term loan facility bear interest at varying rates based on our option at either LIBOR plus 3.25% or the alternate base rate plus 2.25%. The maturity date and interest rate for borrowings under the revolving credit facility remain unchanged in the new amended and restated credit agreement. The revolving line of credit requires the repayment of any outstanding balance for a period of 45 consecutive days commencing on any day in the month of December of each year as determined by us. We repaid our revolving credit facility as of July 23, 2003 and November 5, 2002, and at December 31, 2003 and 2002, we had no revolving line of credit principal outstanding. At December 31, 2003, we had an aggregate of \$10.8 million in letters of credit outstanding under the revolving credit facility, which reduces the amount we may borrow under the revolving credit facility. The total amounts outstanding under the senior secured credit facilities included in senior secured term loans and current maturities of long-term debt in the accompanying consolidated balance sheets were \$297.5 million and \$221.0 million as of December 31, 2003 and 2002, respectively.

On May 22, 2003, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued \$200.0 million in aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% Senior Notes due May 15, 2010. The proceeds of this issuance were placed in escrow pending the completion of the Insignia Acquisition on July 23, 2003, on which date the



**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

proceeds were released from escrow in order to partially fund the acquisition. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9<sup>3</sup>/<sub>4</sub>% Senior Notes. The 9<sup>3</sup>/<sub>4</sub>% Senior Notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE's current and future secured indebtedness. The 9<sup>3</sup>/<sub>4</sub>% Senior Notes are jointly and severally guaranteed on a senior basis by us and substantially all our domestic subsidiaries. Interest accrues at a rate of 9<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on May 15 and November 15. The 9<sup>3</sup>/<sub>4</sub>% Senior Notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we may redeem up to 35.0% of the originally issued amount of the 9<sup>3</sup>/<sub>4</sub>% Senior Notes at 109<sup>3</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 9<sup>3</sup>/<sub>4</sub>% Senior Notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9<sup>3</sup>/<sub>4</sub>% Senior Notes included in the accompanying consolidated balance sheet was \$200.0 million as of December 31, 2003.

In order to partially finance the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due June 15, 2011 for approximately \$225.6 million, net of discount, on June 7, 2001. CBRE assumed all obligations with respect to the 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes in connection with the 2001 Merger on July 20, 2001. The 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we may redeem up to 35.0% of the originally issued amount of the notes at 111<sup>1</sup>/<sub>4</sub>% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$226.2 million and \$225.9 million as of December 31, 2003 and 2002, respectively.

Also in connection with the 2001 Merger, we issued \$65.0 million in aggregate principal amount of 16% Senior Notes due July 20, 2011. The 16% Senior Notes are unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrues at a rate of 16% per year and is payable quarterly in arrears. Interest may be paid in kind to the extent our ability to pay cash dividends is restricted by the terms of our amended and restated credit agreement. Additionally, interest in excess of 12.0% may, at our option, be paid in kind through July 2006. We elected to pay in kind interest in excess of 12.0% or 4.0%, that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003. The 16% Senior Notes are redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of the 16% Senior Notes and paid \$2.9 million of premiums in connection with these redemptions. In the event of a change in control, we are obligated to make an offer to purchase all of the outstanding 16% Senior Notes at 101.0% of par. The amount of the 16% Senior Notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$35.5 million and \$61.9 million as of December 31, 2003 and 2002, respectively.

The 16% Senior Notes are solely our obligation to repay. CBRE has neither guaranteed nor pledged any of its assets as collateral for the 16% Senior Notes and is not obligated to provide cash flow to us for repayment of these 16% Senior Notes. However, we have no substantive assets or operations other than our investment in CBRE to meet any required principal and interest payments on the 16% Senior Notes. We will depend on CBRE's cash flows to fund principal and interest payments as they come due.



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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our amended and restated credit agreement and the indentures governing our 9<sup>3</sup>/<sub>4</sub>% Senior Notes, our 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes and our 16% Senior Notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The amendment and restatement of the credit agreement modified the financial covenant ratios to provide a greater degree of flexibility than the prior credit agreement. The amended and restated credit agreement requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of earnings before interest, taxes, depreciation and amortization to funded debt. The credit agreement required, and after the amendment and restatement continues to require, us to pay a facility fee based on the total amount of the unused commitment.

During 2001, a joint venture that we consolidate incurred \$37.2 million of non-recourse mortgage debt secured by a real estate investment. During the third quarter of 2003, the maturity date on this non-recourse debt was extended to July 31, 2008. In our accompanying consolidated balance sheets, this debt comprised \$41.8 million of our other long-term debt at December 31, 2003 and \$40.0 million of our other short-term borrowings at December 31, 2002. Additionally, during the third quarter of 2003, this joint venture incurred an additional \$1.9 million of non-recourse mortgage debt with a maturity date of June 15, 2004. At December 31, 2003, \$2.0 million of this non-recourse debt is included in short-term borrowings in the accompanying consolidated balance sheet.

We had short-term borrowings of \$270.1 million and \$123.2 million with related average interest rates of 2.7% and 4.3% as of December 31, 2003 and 2002, respectively.

One of our subsidiaries has a credit agreement with Residential Funding Corporation (RFC) for the purpose of funding mortgage loans that will be resold. On December 16, 2002, we entered into a Third Amended and Restated Warehousing Credit and Security Agreement effective December 20, 2002. The agreement provided for a revolving warehouse line of credit of \$200.0 million, bore interest at the lower of one-month LIBOR or 2.0% (RFC Base Rate) plus 1.0% and expired on August 31, 2003. On June 25, 2003, the agreement was modified to provide a temporary revolving line of credit increase of \$200.0 million that resulted in a total line of credit equaling \$400.0 million, which expired on August 30, 2003 and changed the RFC Base Rate to one-month LIBOR. By amendment on August 29, 2003, the expiration date of the agreement was extended to September 25, 2003. On September 26, 2003, we entered into a Fourth Amended and Restated Warehousing Credit and Security Agreement. The agreement provides for a revolving line of credit of up to \$200.0 million, bears interest at one-month LIBOR plus 1.0% and expires on August 31, 2004. By amendment on November 14, 2003, the agreement was further modified to provide a revolving line of credit increase of \$50.0 million that resulted in a total line of credit equaling \$250.0 million.

During the years ended December 31, 2003 and 2002, respectively, we had a maximum of \$272.5 million and \$309.0 million revolving line of credit principal outstanding with RFC. At December 31, 2003 and 2002, respectively, we had a \$230.8 million and a \$63.1 million warehouse line of credit outstanding, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had a \$230.8 million and a \$63.1 million warehouse receivable, representing mortgage loans funded through the line of credit that had not been purchased as of December 31, 2003 and 2002, respectively, which are also included in the accompanying consolidated balance sheets.

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Insignia, which we acquired in July 2003, issued acquisition loan notes in connection with previous acquisitions of businesses in the U.K. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. At December 31, 2003, \$12.2 million of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheet.

In connection with our acquisition of Westmark Realty Advisors in 1995, one of our subsidiaries issued approximately \$20.0 million in aggregate principal amount of Senior Notes (Westmark Senior Notes). The Westmark Senior Notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2003. The Westmark Senior Notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. During the year ended December 31, 2002, all of the Westmark Senior Notes bore interest at 9.0%. On January 1, 2003 the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our credit agreement. On January 1, 2005, the interest rate on all of the other Westmark Senior Notes will be adjusted to equal the interest rate then in effect with respect to amounts outstanding under our credit agreement. The amount of the Westmark Senior Notes included in short-term borrowings in the accompanying consolidated balance sheets was \$12.1 million as of December 31, 2003 and 2002.

Our subsidiaries in Europe have had a Euro cash pool loan since 2001. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by the bank plus 2.5%. The amount of the Euro cash pool loan included in short-term borrowings in the accompanying consolidated balance sheets was \$11.5 million and \$7.9 million as of December 31, 2003 and 2002, respectively.

One of our subsidiaries has a credit agreement with JP Morgan Chase. The credit agreement provides for a revolving line of credit of up to \$20.0 million, bears interest at 1.0% in excess of the bank's cost of funds and expires on May 28, 2004. At December 31, 2003 and 2002, no amounts were outstanding under this line of credit.

In connection with the Insignia Acquisition, on July 23, 2003, we immediately repaid Insignia's outstanding revolving credit facility of \$28.0 million and subordinated credit facility of \$15.0 million.

**13. Commitments and Contingencies**

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any liability imposed upon us that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.



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The following is a schedule by year of future minimum lease payments for noncancellable operating leases as of December 31, 2003 (dollars in thousands):

2004	\$ 96,123
2005	89,961
2006	77,203
2007	69,539
2008	64,555
Thereafter	312,881
	<hr/>
Total minimum payments required	\$ 710,262
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The total minimum payments for noncancellable operating leases were not reduced by the minimum sublease rental income of \$4.7 million due in the future under noncancellable subleases.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Substantially all leases require us to pay maintenance costs, insurance and property taxes. The composition of total rental expense under noncancellable operating leases consisted of the following (dollars in thousands):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	
	2003	2002	2001	2001
Minimum rentals	\$ 81,361	\$ 68,711	\$ 27,203	\$ 32,831
Less sublease rentals	(2,134)	(1,157)	(500)	(551)
	\$ 79,227	\$ 67,554	\$ 26,703	\$ 32,280

In connection with the sale of real estate investment assets by Insignia to Island on July 23, 2003 (See Note 3), Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of December 31, 2003, an aggregate of approximately \$10.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$2.9 million as security for Island's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island.

One of our subsidiaries previously executed an agreement with Fannie Mae to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and we retained the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$98.6 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$1.0 million. The other 1% is covered in the form of a guarantee to Fannie Mae.

We had outstanding letters of credit totaling \$22.6 million as of December 31, 2003, excluding letters of credit related to our outstanding indebtedness. Approximately \$10.8 million of these letters of credit secure certain office leases and are outstanding pursuant to the revolving credit facility under our amended and restated credit agreement. An additional \$10.8 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island described above and are outstanding pursuant to a reimbursement agreement with the Bank of Nova Scotia. Under this agreement, we may issue up to a maximum of approximately \$11.0 million of letters of credit outstanding at any one time and the outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The remaining outstanding letters of credit have been issued pursuant to a credit agreement with Wells Fargo Bank for the Fannie Mae letter of credit described above. The outstanding letters of credit as of December 31, 2003 expire at varying dates through

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August 31, 2004. However, we are obligated to renew the letters of credit related to certain office leases until 2023, the letters of credit related to the Island Purchase Agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$9.0 million as of December 31, 2003, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae discussed above. Approximately \$4.8 million of the guarantees are related to investment activity that is scheduled to expire in October 2008. Approximately \$1.7 million of the guarantees are related to office leases in Europe and Asia. These guarantees will expire at the end of the lease terms. The guarantee obligation related to the agreement with Fannie Mae discussed above will expire in December 2004. The guarantee related to the Island Purchase Agreement will expire on the May 30, 2004 maturity date of the underlying loan agreement, unless such loan is renewed, modified or extended prior to such date to provide for a later maturity date.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of December 31, 2003, we had committed \$26.6 million to fund future co-investments.

**14. Income Taxes**

Our tax (benefit) provision consisted of the following (in thousands):

	<b>CB Richard Ellis Group</b>			<b>Predecessor Company</b>
	<b>Year Ended</b>	<b>Period From</b>	<b>Period From</b>	
	<b>December 31,</b>	<b>February 20</b>	<b>January 1</b>	
		<b>(inception)</b>	<b>to</b>	
			<b>December 31,</b>	<b>to July 20,</b>
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2001</b>
Federal:				
Current	\$ (5,335)	\$ 10,204	\$ 11,747	\$
Deferred	(6,637)	6,232	(3,252)	(911)
Change in valuation allowances			796	

	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	(11,972)	16,436	9,291	