

CB RICHARD ELLIS GROUP INC  
Form S-1/A  
May 20, 2004  
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As filed with the Securities and Exchange Commission on May 20, 2004

Registration No. 333-112867

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Amendment No. 3

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

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**CB Richard Ellis Group, Inc.**

**(formerly known as CBRE Holding, Inc.)**

**865 South Figueroa Street, Suite 3400**

**Los Angeles, CA 90017**

**(213) 438-4880**

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

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*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. "  "

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**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 MAY 20, 2004

24,000,000 Shares

**CB Richard Ellis Group, Inc.**

**Class A Common Stock**

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Prior to this offering, there has been no public market for our Class A common stock. The initial public offering price of our Class A common stock is expected to be between \$20.00 and \$22.00 per share. We have applied to list our Class A common stock on the New York Stock Exchange under the symbol CBG.

We are selling 7,142,857 shares of Class A common stock and the selling stockholders are selling 16,857,143 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.

The underwriters have an option to purchase a maximum of 3,600,000 additional shares of Class A common stock from the selling stockholders to cover over-allotments of shares.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 9.

<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to CB Richard Ellis Group</u>	<u>Proceeds to Selling Stockholders</u>
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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**

**JPMorgan**

**Lehman Brothers**

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

**Goldman, Sachs & Co.**

**Merrill Lynch & Co.**

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

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**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document 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.*

### **Dealer Prospectus Delivery Obligation**

**Until \_\_\_\_\_, 2004, all dealers that effect transactions in these securities, whether or not participating in the offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.**



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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. on July 23, 2003 and the related transactions and financings and the completion of the offering and the use of the net proceeds we receive, in each case 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 48 countries with over 13,500 employees in 220 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.

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. 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 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.

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***Outsourcing Services.*** Our outsourcing services business line accounted for 11.2% of our 2003 revenue. 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.

***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. 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**

Our EMEA segment has 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.

## **Asia Pacific**

Our Asia Pacific segment has 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.

## **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:

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***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, 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

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in order to maximize our operating margins and cash flow.

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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 us	7,142,857 shares
Common stock offered by the selling stockholders	16,857,143 shares (or 20,457,143 shares if the underwriters exercise the over-allotment option in full)
Common stock to be outstanding after the offering	68,068,552 shares
Proposed New York Stock Exchange symbol	CBG
Use of proceeds	We estimate that our net proceeds from the offering will be \$138.7 million, based on an assumed initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. We intend to use these net proceeds of the offering to redeem all \$38.3 million of our outstanding 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 to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.
Dividend Policy	Following the consummation of the offering, 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 60,582,643 shares outstanding as of April 30, 2004, reflects the automatic conversion at a 1-for-1 ratio of all outstanding shares of our Class B common stock into shares of Class A common stock in connection with the completion of the offering and excludes:

6,887,701 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 1,601,448 shares were then exercisable;

3,129,370 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to elections made by plan participants or distributions made by us and which shares include 1,948,215 underlying stock fund units that had vested; and

6,928,406 additional shares available for future issuance under our 2004 stock incentive plan.

The number of shares shown to be outstanding after the offering includes 343,052 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share as

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a result of the completion of the offering. This number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading titled Description of Capital Stock Warrants.

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Except as otherwise indicated, all information in this prospectus assumes:

no exercise by the underwriters of their option to purchase up to 3,600,000 additional shares from the selling stockholders to cover over-allotments of shares;

a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock on May 4, 2004, which split was effected by a stock dividend, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering; and

the amendment and restatement of our certificate of incorporation prior to the completion of the offering.

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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 Financial Group, Inc., or Insignia, the related transactions and financings for such acquisition and the offering and expected use of proceeds that we receive from the offering for the periods 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, other data and balance sheet 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. 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 statement of operations data do not purport to represent what our results of operations would have been if the Insignia acquisition, the related transactions and financings and the offering had occurred as of the date indicated or what our results will be for future periods.

	Pro Forma			CB Richard Ellis Group				Predecessor Company	
	Three Months Ended		Year Ended	Three Months Ended		Year Ended		Period from	Period
	March 31,		December 31,	March 31,		December 31,		February 20 (inception) to December 31,	from January 1 to July 20,
	2004	2003	2003	2004	2003	2003 (1)	2002	2001 (2)	2001
(Dollars in thousands, except share data)									
<b>Statement of Operations Data:</b>									
Revenue	\$ 440,992	\$ 393,624	\$ 1,948,827	\$ 440,992	\$ 263,724	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934
Operating (loss) income	(9,272)	(39,078)	17,871	(9,272)	7,779	25,830	96,736	61,178	(17,048)
Interest expense, net	14,296	14,292	55,774	18,372	13,249	81,175	57,229	27,290	18,736
Net (loss) income	(13,862)	(28,259)	(23,525)	(16,568)	(1,347)	(34,704)	18,727	17,426	(34,020)
EPS (3)(4):									
Basic	(0.20)	(0.40)	(0.34)	(0.26)	(0.03)	(0.68)	0.45	0.80	(1.60)
Diluted	(0.20)	(0.40)	(0.34)	(0.26)	(0.03)	(0.68)	0.44	0.79	(1.60)
Weighted average shares (4)(5):									
Basic	70,008,085	69,922,543	69,964,474	62,522,176	41,651,415	50,918,572	41,640,576	21,741,351	21,306,584
Diluted	70,008,085	69,922,543	69,964,474	62,522,176	41,651,415	50,918,572	42,185,989	21,920,915	21,306,584
<b>Statement of Cash Flow Data:</b>									
Net cash (used in) provided by operating activities									
				\$ (87,367)	\$ (70,761)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)
Net cash used in investing activities									
				(19,098)	(2,494)	(284,795)	(24,130)	(261,393)	(12,139)
Net cash (used in) provided by financing activities									
				(2,203)	11,756	303,664	(17,838)	213,831	126,230
<b>Other Data:</b>									
EBITDA (6)	\$ 10,085	\$ 12,273	\$ 135,621	10,085	17,013	132,817	130,676	74,930	11,482

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	Pro Forma	CB Richard Ellis Group			
	As of	As of	As of December 31,		
	March 31,	March 31,	2003	2002	2001
	2004	2004	2003	2002	2001
<b>(In thousands)</b>					
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 39,254	\$ 54,254	\$ 163,881	\$ 79,701	\$ 57,450
Total assets	1,910,784	1,919,735	2,213,481	1,324,876	1,354,512
Long-term debt, including current portion	676,106	801,744	802,705	509,715	517,423
Total liabilities	1,475,077	1,600,715	1,873,896	1,067,920	1,097,693
Total stockholders' equity	428,847	312,160	332,929	251,341	252,523

(footnotes on following page)

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*(footnotes for previous page)*

- (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 16 to our audited consolidated financial statements 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 to be effected prior to the completion of the offering, 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, 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 payments and debt service requirements. 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 Forma		CB Richard Ellis Group		Predecessor Company	
Three Months Ended	Year Ended	Three Months Ended	Year Ended	Period From	Period From
March 31,	December 31,	March 31,	December 31,	(inception) to	January 1
				February 20	From
				December 31,	July 20,

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	2004	2003	2003	2004	2003	2003	2002	2001	2001
(In thousands)									
Net (loss) income	\$ (13,862)	\$ (28,259)	\$ (23,525)	\$ (16,568)	\$ (1,347)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add:									
Depreciation and amortization	16,831	48,288	103,385	16,831	6,171	92,622	24,614	12,198	25,656
Interest expense	16,603	16,280	63,340	20,679	14,324	87,216	60,501	29,717	20,303
(Benefit) provision for income taxes	(7,180)	(22,048)	(13)	(8,550)	(1,060)	(6,276)	30,106	18,016	1,110
Less:									
Interest income	2,307	1,988	7,566	2,307	1,075	6,041	3,272	2,427	1,567
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 12,273</b>	<b>\$ 135,621</b>	<b>\$ 10,085</b>	<b>\$ 17,013</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, rising interest rates, a declining demand for real estate or the public perception that any of these events may occur, can harm 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 demand for 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. 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, 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, 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, although we currently have no specific acquisition plans, 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. Although we currently have no specific acquisition plans, 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 March 31, 2004, we have incurred approximately \$175.0 million of transaction-related expenses in connection with our acquisition of Insignia in 2003.

### **Although we currently have no specific acquisition plans, if we acquire companies in the future, we may experience integration costs and the acquired business 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 quarter of 2004 relating to integration costs.

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 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.

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**A significant portion of our operations are concentrated in California and New York, and our business could be harmed if the economic downturn continues 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. In addition, 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 further 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 \$63.3 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;

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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;

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

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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 and Poor's Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% 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 or changes in the interest rate for the term loan under our new amended and restated credit agreement.

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

Our new amended and restated credit agreement, as will be effective following this offering, governing our senior secured credit facilities and the indentures relating to our 9¾% senior notes due 2010 and our 11¼% 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 new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, 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 significant 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 9¾% senior notes due 2010 and our 11¼% 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.

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

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under our senior secured credit facilities is outstanding. The amended and restated credit agreement governing our senior secured credit facilities 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 9¾% senior notes due 2010 and our 11¼% 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 9¾% senior notes due 2010 and our 11¼% 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 December 31, 2003, we had committed \$26.6 million to fund future co-investments. We expect that approximately \$23 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. 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 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.

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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 and White 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.**

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 approximately \$10.2 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 price of our common stock may fluctuate significantly, and you could lose all or part of your investment.**

The 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 initial public 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.

**There is no existing market for our common stock and we do not know if one will develop to provide you with adequate liquidity.**

There has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the New York Stock Exchange or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for the shares will be determined by negotiations among us, the selling stockholders and the representative of the underwriters and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell shares of our common stock at prices equal to or greater than the price paid by you in this offering.

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

Our current stockholders will hold a substantial majority of our outstanding common stock after the offering. After the offering, shares owned by our current stockholders, holders of options and warrants to acquire our common stock and participants in our deferred compensation plan who have stock fund units, assuming the exercise of all options and warrants and the distribution of shares underlying all stock fund units, are expected to constitute approximately 69.3% of our total outstanding common stock. 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 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 24,000,000 shares sold in the offering and 1,103,659 of our other currently outstanding shares 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. The remaining outstanding shares after completion of the offering will be restricted securities and generally will be available for sale in the public market as follows:



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66,715 shares will be eligible for immediate sale on the date of the prospectus because such shares may be sold pursuant to Rule 144(k);

209,629 shares will be eligible for sale at various times beginning 90 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701; and

42,688,549 shares, which are subject to lock-up agreements with the underwriters, will be eligible for sale at various times beginning 180 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701. However, the underwriters may release all or a portion of these shares subject to lock-up agreements at any time without notice.

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In addition, as of April 30, 2004, 10,017,071 shares of common stock were issuable upon the exercise of outstanding stock options or in connection with distributions pursuant to our deferred compensation plan. We intend to file a registration statement on Form S-8 under the Securities Act of 1933 shortly after the date of this prospectus to register such shares.

After the offering, stockholders beneficially owning approximately 42.8 million shares of our common stock, including shares that will be issuable upon the automatic exercise of outstanding warrants in connection with the completion of the offering, 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.

**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 42.3% of our outstanding common stock. In addition, pursuant to a securityholders' agreement, these affiliates of Blum Capital Partners, following the offering and 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 13.8% 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.

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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**.

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### **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.

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*.

### **You will suffer immediate and substantial dilution because the net tangible book value of shares purchased in the offering will be substantially lower than the initial public offering price.**

The net tangible book value per share of our common stock, adjusted to reflect the net proceeds we receive from the offering, will be substantially below the initial public offering price. You therefore will incur immediate and substantial dilution of \$30.56 per share at an initial public offering price of \$21.00 per share, which is the mid-point of the initial offering price range per share set forth on the cover page of this prospectus. In addition, as of April 30, 2004, we had options outstanding to acquire 6,887,701 shares of our common stock with a weighted average exercise price of \$5.77 per share and stock units under our deferred compensation plan with 3,129,370 underlying shares of our common stock. To the extent these securities are exercised or otherwise issued, you will incur further dilution. As a result, if we are liquidated, you may not receive the full amount of your investment. See the information under the heading titled *Dilution* for a more complete description of the dilution you will incur.

### **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, own approximately \$34.8 million in aggregate principal amount of our 16% senior notes due 2011, all of which we expect to redeem with the net proceeds we receive from the offering. In connection with the redemption, they also will receive a premium payment of approximately \$3.4 million, plus accrued but unpaid interest through the redemption date. Affiliates of Credit Suisse First Boston LLC also are the lenders with respect to 3.71% of the term loan under our amended and restated credit agreement. We intend to prepay \$19.9 million in principal amount of the term loan with a portion of the net proceeds we receive from the offering.

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In addition, affiliates of Credit Suisse First Boston LLC are selling stockholders in the offering. As of April 30, 2004, these affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,990,791 shares, or approximately 3.3% of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling 581,717 shares (or 705,948 shares if the underwriters exercise their over-allotment option in full) in the offering, and will receive net proceeds of approximately \$11.5 million (or approximately \$13.9 million if the underwriters exercise their over-allotment option in full) at an assumed initial public offering price of \$21.00 per

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share, which is the mid-point of the range set forth on the cover page of this prospectus. After the offering, these affiliates of Credit Suisse First Boston LLC will beneficially own 2.1% of our common stock (or 1.9% 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 would receive. This offering is therefore being made using a qualified independent underwriter in compliance with Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc., which is intended to address potential conflicts of interest involving underwriters. See the information under the heading "Underwriting" for a more detailed description of the independent underwriting procedures that are being used in connection with the offering.

**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.



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**USE OF PROCEEDS**

The net proceeds from the sale of the 7,142,857 shares of common stock offered by us will be approximately \$138.7 million, based on an assumed initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of the shares to be sold by the selling stockholders.

The primary purposes of the offering are to create a public market for our common stock, obtain additional equity capital and facilitate future access to public markets. We expect to use our net proceeds from the offering to redeem the remaining \$38.3 million 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 to prepay \$19.9 million in aggregate principal amount of the term loan under our amended and restated credit agreement. The amended and restated credit agreement governing our senior secured credit facilities currently would limit our ability to complete such redemptions or prepayment. We have entered into an amendment to such agreement that will be effective upon the completion of the offering and, among other things, will permit such redemptions and prepayment to be completed.

In addition to repayment of the outstanding \$38.3 million principal amount, the redemption of the 16% senior notes will require payment of a \$3.7 million premium, plus accrued but unpaid interest through the date of redemption. Affiliates of Credit Suisse First Boston LLC, one of the representatives of the underwriters of the offering, hold a substantial majority of the outstanding 16% senior notes and, as a result, will receive a payment of approximately \$38.2 million, representing principal and premium, in connection with the redemption of their notes, together with accrued but unpaid interest through the date of redemption. The redemption of \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 will require payment of a \$6.8 million premium, plus accrued but unpaid interest through the date of redemption. The prepayment of \$19.9 million in principal amount of our term loan also will require payment of any accrued but unpaid interest through the date of prepayment. Affiliates of Credit Suisse First Boston LLC are the lenders with respect to 3.71% of this term loan.

Our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 were issued by our indirect, wholly owned subsidiary, CBRE Escrow, Inc., on May 22, 2003, with the proceeds from the offering of these notes being placed in escrow pending our acquisition of Insignia. On July 23, 2003, CBRE Escrow merged into our direct, wholly owned subsidiary CB Richard Ellis Services, Inc., and the net proceeds from the offering were released from escrow and used to partially finance our acquisition of Insignia.

The term loan that we will partially prepay with net proceeds we receive from the offering will be a portion of the term loan under our current amended and restated credit agreement, which will be refinanced in connection with the completion of the offering. Pursuant to the terms of the new amended and restated credit agreement that will become effective with such refinancing, the term loan will bear interest at varying rates based, at our option, at either LIBOR plus 2.25% to 2.50% or the alternate base rate plus 1.25% to 1.50% (in each case determined by reference to the credit rating assigned to the term facility by Moody's Investors Service and Standard and Poor's). The alternate base rate is the higher of (1) Credit Suisse First Boston's prime rate or (2) the effective rate for federal funds plus 0.50%. A portion of the outstanding term loan under our current amended and restated credit agreement was borrowed during the past year in order to finance partially our acquisition of Insignia on July 23, 2003 and for other general corporate purposes.

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**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 March 31, 2004 (giving effect to a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock on May 4, 2004, which was effected by a stock dividend, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering):

on an actual basis; and

on an as adjusted basis, giving effect to:

the conversion at a 1-for-1 ratio of all outstanding shares of our Class B common stock into shares of Class A common stock in connection with the completion of the offering;

our sale of 7,142,857 shares of our common stock in the offering at an assumed initial public offering price of \$21.00 per share, the mid-point of the range set forth on the cover page of this prospectus, and after deducting underwriting discounts and estimated expenses payable by us;

the redemption by us of the remaining \$38.3 million 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 \$19.9 million in principal amount of the term loan under our amended and restated credit agreement; and

the payment of bonuses that are payable to several of our non-executive real estate services employees pursuant to their employment agreements as a result of the completion of the offering.

This table should be read in conjunction with our financial statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and Unaudited Pro Forma Financial Information contained elsewhere in this prospectus.

	As of March 31, 2004	
	Actual	As Adjusted
	(In thousands)	
Cash and cash equivalents	\$ 54,254	\$ 39,254
Long-term debt, including current portion:		
CB Richard Ellis Group:		
16% senior notes due 2011 (1)	\$ 35,756	\$
CB Richard Ellis Services:		
Revolving credit facility (2)	13,250	13,250
Senior secured term loan (3)	295,000	275,118
9 <sup>3</sup> / <sub>4</sub> % senior notes due 2010	200,000	130,000
11 <sup>1</sup> / <sub>4</sub> % senior subordinated notes due 2011 (4)	226,236	226,236
Other long-term debt	44,752	44,752

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Total long-term debt, including current portion	814,994	689,356
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value per share; no shares authorized, no shares issued or outstanding, actual; and 25,000,000 shares authorized, no shares issued or outstanding, as adjusted		
Class A common stock, \$0.01 par value per share; 325,000,000 shares authorized, 7,578,976 shares issued and outstanding (including treasury shares), actual; and 325,000,000 shares authorized, 68,474,440 shares issued and outstanding (including treasury shares), as adjusted (5)(6)	76	685
Class B common stock, \$0.01 par value per share; 100,000,000 authorized, 53,409,556 shares issued and outstanding, actual; and no shares authorized, no shares issued or outstanding, as adjusted (7)	534	
Additional paid-in capital	361,636	500,261
Notes receivable from sale of stock	(4,388)	(4,388)
Accumulated deficit	(15,119)	(37,132)
Accumulated other comprehensive loss	(28,267)	(28,267)
Treasury stock at cost, 405,888 shares	(2,312)	(2,312)
<b>Total stockholders' equity</b>	<b>312,160</b>	<b>428,847</b>
<b>Total capitalization</b>	<b>\$ 1,127,154</b>	<b>\$ 1,118,203</b>

(footnotes on following page)

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*(footnotes for previous page)*

- (1) The amount shown for our actual capitalization is net of unamortized discount of \$2.6 million associated with the issuance of our 16% senior notes due 2011.
  
- (2) As of March 31, 2004, there was \$13.3 million outstanding under our revolving credit facility and an aggregate of \$12.6 million of letters of credit drawn under our revolving credit facility, which reduces the amount we may borrow under our revolving credit facility. Borrowings of up to \$90.0 million are available at any one time for general corporate purposes under our revolving credit facility. In addition, we expect that our new amended and restated credit agreement, as will be effective following the offering, will include an incremental revolving credit facility of \$60.0 million.
  
- (3) Includes current portion of \$10.0 million due and payable on or prior to March 31, 2004. Our new amended and restated credit agreement, as will be effective following the offering, will permit us to increase the term loan by up to \$25.0 million, subject to the satisfaction of customary conditions.
  
- (4) The amount shown for our actual and as adjusted capitalization is net of unamortized discount of \$2.8 million associated with the issuance of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011. Neither amount shown reflects our purchase of \$20.1 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May 2004.
  
- (5) The number of shares of Class A common stock outstanding after the offering excludes as of March 31, 2003:  
  
6,887,701 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share;  
  
3,129,370 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to elections made by plan participants or distributions made by us; and  
  
6,928,406 additional shares available for future issuance under our 2004 stock incentive plan that we expect to adopt prior to the completion of the offering.
  
- (6) The number of shares of Class A common stock outstanding on an as adjusted basis includes 343,052 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share in connection with the offering. This number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading Description of Capital Stock Warrants.
  
- (7) The number of authorized shares of Class B common stock after the offering assumes the filing and effectiveness of an amendment and restatement of our certificate of incorporation immediately after the completion of the offering.

**Table of Contents****DILUTION**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after the offering. Dilution results from the fact that the per share offering price of the common stock is in excess of the book value per share attributable to the existing stockholders for the presently outstanding common stock

Our net tangible book deficit as of March 31, 2004 was \$761.3 million, or \$12.57 per share of Class A and Class B common stock. Net tangible book deficit per share before the offering is equal to the total book value of tangible assets less total liabilities, divided by the number of shares of Class A and Class B common stock outstanding as of March 31, 2004, which number of shares is adjusted to reflect the 3-for-1 split of our outstanding Class A and Class B common stock on May 4, 2004, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering. After giving effect to the sale of 7,142,857 shares of our common stock in the offering and the automatic cashless exercise of warrants in connection with the offering, in each case at the assumed initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us and giving effect to the other transactions described under the heading Use of Proceeds, the pro forma net tangible book deficit as of March 31, 2004 would have been \$650.6 million, or \$9.56 per share. This represents an immediate increase in pro forma net tangible book value per share of \$3.01 to existing stockholders and dilution in net tangible book value per share of \$30.56 to new investors purchasing shares in the offering. The following table summarizes this per share dilution:

Assumed initial public offering price per share	\$ 21.00
Net tangible book deficit per share as of March 31, 2004	\$ (12.57)
Decrease in pro forma net tangible book deficit per share attributable to the offering	3.01
	<hr/>
Pro forma net tangible book deficit per share after the offering	(9.56)
	<hr/>
Dilution in net tangible book value per share to new investors	\$ 30.56
	<hr/>

The following table summarizes, on a pro forma basis as of April 30, 2004, the differences between our existing stockholders and new investors with respect to the number of shares of Class A and Class B common stock issued by us, the total consideration paid and the average price per share paid before deducting underwriting discounts and commissions and our estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(In thousands)		(In thousands)		
Existing stockholders	60,926	89.5%	\$ 357,226	70.4%	\$ 5.86
New investors (1)	7,143	10.5	150,000	29.6	21.00
	<hr/>	<hr/>	<hr/>	<hr/>	
Total	68,069	100.0%	\$ 507,226	100.0%	
	<hr/>	<hr/>	<hr/>	<hr/>	

(1) The 24,000,000 shares to be sold in the offering include 16,857,143 shares to be sold by existing stockholders.

If the underwriters exercise their over-allotment option in full, (1) the number of shares held by existing stockholders will decrease to 57,325,695, or approximately 84.2% of the total number of shares of common stock outstanding after the offering, and (2) the number of shares held by new investors will increase to 10,742,857, or approximately 15.8% of the total number of shares of our common stock outstanding after the offering.

As of April 30, 2004, there were an aggregate of (1) 6,887,701 shares of common stock issuable upon the exercise of outstanding options granted under our 2001 stock incentive plan at a weighted average exercise price

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of \$5.77 per share, of which options to purchase 1,601,448 shares were then exercisable; and (2) 3,129,370 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to the elections made by participants or distributions made by us, of which stock fund units with 1,948,215 underlying shares were then vested. In connection with the completion of the offering, our 2001 stock incentive plan will terminate and our 2004 stock incentive plan will become effective, which new plan will have 6,928,406 shares reserved for future issuance pursuant to awards made under the plan.

The following table adjusts the information set forth in the table above to reflect the assumed exercise of options and the distribution of shares underlying stock fund units, in each case outstanding as of April 30, 2004, that are described in the preceding paragraph:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(In thousands)		(In thousands)		
Existing stockholders (1)	60,926	78.0%	\$ 357,226	63.2%	\$ 5.86
Option holders	6,888	8.8	39,742	7.0	5.77
Stock fund unit holders	3,129	4.0	18,056	3.2	5.77
New investors	7,143	9.2	150,000	26.6	21.00
<b>Total</b>	<b>78,086</b>	<b>100.0%</b>	<b>\$ 565,024</b>	<b>100.0%</b>	

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- (1) The 24,000,000 shares to be sold in the offering include 16,857,143 shares to be sold by existing stockholders.

Assuming the exercise of the foregoing outstanding options and the distribution of shares underlying the foregoing stock fund units, dilution to new investors in net tangible book value per share would be \$29.33.



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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 statements of operations for the three months ended March 31, 2003 and for the year ended December 31, 2003 give 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;

**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 9¾% 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; and

**The Offering**

the redemptions on October 27, 2003 and December 29, 2003 of \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes due 2011, and the payment of premiums of \$2.9 million in connection with such redemptions; and

the offering and the application of net proceeds of the offering, assuming the sale of 7,142,857 shares by us at an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, to (1) 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, (2) 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, and (3) the prepayment of \$19.9 million in principal amount of the term loan under our amended and restated credit agreement.

The following unaudited statement of operations for the three months ended March 31, 2004 gives effect to the transactions described in the second bullet point under the heading titled "The Offering" above as if such transactions had occurred as of January 1, 2004.

The following unaudited pro forma balance sheet as of March 31, 2004 gives effect to the transactions described in the second bullet point under "The Offering" above, as well as the payment of contractual bonuses in the aggregate amount of \$15.0 million that are payable to several of our non-executive real estate services

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employees pursuant to their employment agreements as a result of the completion of the offering, in each case as if such transactions had occurred on March 31, 2004.

The following pro forma statements of operations for the three months ended March 31, 2004 and March 31, 2003 and for the year ended December 31, 2003 do not reflect the \$15.0 million of compensation expense described in the immediately preceding paragraph because it is a nonrecurring expense.

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 Insignia acquisition and related transactions and the offering in fact occurred on the dates specified, nor does the information purport to project our results of operations for any future period or at any future date.

All pro forma adjustments with respect to the Insignia acquisition and related transactions are based on preliminary estimates and assumptions and are subject to revision upon finalization of purchase accounting. Once we finalize the required purchase price allocations in connection with the Insignia acquisition and related transactions, the unaudited pro forma financial information will be subject to adjustment and there can be no assurance that such adjustments will not be material.

The unaudited pro forma financial information does not give effect to the following:

the refinancings of all outstanding borrowings under our amended and restated credit agreement on either October 14, 2003 or the date of the completion of the offering; and

the open market purchases by us of \$20.1 million in aggregate principal amount of our 11 1/4% senior subordinated notes in May 2004, and the payment of premiums of \$2.9 million in connection with such purchases.

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.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS****For the Three Months Ended March 31, 2004****(In thousands, except share data)**

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma As Adjusted</u>
Revenue	\$ 440,992	\$	\$ 440,992
Costs and expenses:			
Cost of services	224,222		224,222
Operating, administrative and other	199,251		199,251
Depreciation and amortization	16,831		16,831
Merger-related charges	9,960		9,960
	<u>450,264</u>		<u>450,264</u>
Operating loss	(9,272)		(9,272)
Equity income from unconsolidated subsidiaries	2,526		2,526
Interest income	2,307		2,307
Interest expense	20,679	(4,076)(a)	16,603
	<u>(25,118)</u>	<u>4,076</u>	<u>(21,042)</u>
Loss from continuing operations before benefit for income taxes	(25,118)	4,076	(21,042)
Benefit for income taxes	(8,550)	1,370 (b)	(7,180)
	<u>(16,568)</u>	<u>2,706</u>	<u>(13,862)</u>
Loss from continuing operations	\$ (16,568)	\$ 2,706	\$ (13,862)
	<u>(0.26)</u>		<u>(0.20)</u>
Basic and diluted loss per share from continuing operations	\$ (0.26)		\$ (0.20)
	<u>62,522,176</u>		<u>70,008,085 (c)</u>
Weighted average shares outstanding for basic and diluted loss per share	62,522,176		70,008,085 (c)

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

**Table of Contents****Notes to Unaudited Pro Forma Statement of Operations****For the Three Months Ended March 31, 2004**

- (a) The decrease in pro forma interest expense as a result of the offering is summarized as follows:

	<b>(In thousands)</b>
Historical interest expense on our 16% senior notes	\$ (1,537)
Historical amortization of deferred financing costs related to our 16% senior notes	(143)
Historical amortization of discount related to our 16% senior notes	(284)
Historical interest expense on portion of our 9 <sup>3</sup> / <sub>4</sub> % senior notes redeemed	(1,706)
Historical amortization of deferred financing costs related to portion of our 9 <sup>3</sup> / <sub>4</sub> % senior notes redeemed	(128)
Historical interest expense on portion of our senior secured term loan prepaid	(223)
Historical amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(55)
<b>Net decrease in interest expense</b>	<b>\$ (4,076)</b>

- (b) Represents the tax effect of the pro forma adjustments included in note (a) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (c) In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,142,857 shares of Class A common stock that we expect to issue and sell in the offering and 343,052 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2004. The number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS****For the Three Months Ended March 31, 2003****(In thousands, except share data)**

	Historical		Pro Forma Adjustments			Pro Forma As Adjusted
	CB Richard Ellis Group	Insignia	Disposition of Real Estate Investment Assets (a)	Insignia Acquisition	The Offering	
Revenue	\$ 263,724	\$ 132,779	\$ (2,879)	\$	\$	\$ 393,624
Costs and expenses:						
Cost of services	123,599					123,599
Operating, administrative and other	126,175					126,175
Cost and expenses Insignia		139,815	(4,228)	1,023 (b)		134,640
				(1,970)(c)		
Depreciation and amortization	6,171	4,425	(406)	(836)(d)		48,288
				38,934 (e)		
	255,945	144,240	(4,634)	37,151		432,702
Operating income (loss)	7,779	(11,461)	1,755	(37,151)		(39,078)
Equity income (loss) from unconsolidated subsidiaries	3,063	(3,081)	3,081			3,063
Interest income	1,075	913				1,988
Interest expense	14,324	2,341	(415)	5,086 (f)	(5,056)(h)	16,280
(Loss) income from continuing operations before (benefit) provision for income taxes	(2,407)	(15,970)	5,251	(42,237)	5,056	(50,307)
(Benefit) provision for income taxes	(1,060)	(7,757)	2,100	(16,895)(g)	1,564 (i)	(22,048)
(Loss) income from continuing operations	\$ (1,347)	\$ (8,213)	\$ 3,151	\$ (25,342)	\$ 3,492	\$ (28,259)
Basic and diluted loss per share from continuing operations	\$ (0.03)					\$ (0.40)
Weighted average shares outstanding for basic loss and diluted per share	41,651,415					69,922,543 (j)

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



**Table of Contents****Notes to Unaudited Pro Forma Statement of Operations****For the Three Months Ended March 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 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 we will amortize it on a straight-line basis 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 three 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 reversal of legal fees incurred by Insignia related to the Insignia acquisition. 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.
- (d) Represents a reduction to depreciation expense as a result of fair value adjustments to property and equipment.
- (e) 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 March 31, 2003	\$ (593)
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Adjustment to CB Richard Ellis Group amortization of intangibles acquired in the Insignia acquisition:

	<u>Amortization Period</u>	<u>Cost</u>	<u>Pro Forma Amortization for the Three Months Ended March 31, 2003 (Assumes 1/1/03 Acquisition Date)</u>
Backlog	Various	\$ 72,503	\$ 38,785



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Management contracts	Various	4,611	277	
Other	Various	5,808	465	
		<u>          </u>	<u>          </u>	
Total		82,922	39,527	39,527
				<u>          </u>
Pro forma adjustment to amortization expense				\$ 38,934
				<u>          </u>

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- (f) 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 9¾% per annum	\$ 4,875
Incremental interest on \$75.0 million in additional tranche B term loan borrowings at LIBOR plus 4.25% (1)	1,051
Additional 0.50% interest rate margin on existing senior secured term loan facilities	279
Incremental amortization of deferred financing costs over the term of each respective debt instrument	749
Incremental commitment and administration fees	81
	<u>          </u>
Subtotal	7,035
Less: historical interest expense of Insignia	(1,156)
Less: historical amortization of deferred financing costs of CB Richard Ellis Group (credit facility in effect prior to Insignia acquisition)	(427)
Less: historical amortization of deferred financing costs of Insignia	(366)
	<u>          </u>
Subtotal	(1,949)
	<u>          </u>
Net increase in interest expense	<u>\$ 5,086</u>

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- (1) For purposes of the calculations above, LIBOR is based on the average three-month LIBOR for fiscal year 2003.
- (g) Represents the tax effect of the pro forma adjustments included in notes (b) through (f) above at the respective statutory rates.
- (h) The decrease in pro forma interest expense as a result of the offering is summarized as follows:

	<u>(In thousands)</u>
Historical interest expense on our 16% senior notes	\$ (2,700)
Historical amortization of deferred financing costs related to our 16% senior notes	(143)
Historical amortization of discount related to our 16% senior notes	(66)
Interest expense on portion of our 9¾% senior notes redeemed	(1,706)
Amortization of deferred financing costs related to portion of our 9¾% senior notes redeemed	(128)
Interest expense on portion of our senior secured term loan prepaid	(280)
Amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(33)
	<u>          </u>
Net decrease in interest expense	<u>\$ (5,056)</u>

- (i) Represents the tax effect of the pro forma adjustments included in note (h) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (j) The pro forma number of 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. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average

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shares number gives effect to 7,142,857 shares of Class A common stock that we expect to issue and sell in the offering and 343,052 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2003. The number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

**Table of Contents****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	The Offering	
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)		103,385
				3,541 (d)		
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	6,041	1,924		(399)(f)		7,566
Interest expense	87,216	6,045	(841)	196 (g)	(29,276)(i)	63,340
(Loss) income from continuing operations before (benefit) provision for income taxes	(40,980)	(35,054)	20,096	3,124	29,276	(23,538)
(Benefit) provision for income taxes	(6,276)	(12,104)	8,239	1,250 (h)	8,878 (j)	(13)
(Loss) income from continuing operations	<u>\$ (34,704)</u>	<u>\$ (22,950)</u>	<u>\$ 11,857</u>	<u>\$ 1,874</u>	<u>\$ 20,398</u>	<u>\$ (23,525)</u>
Basic and diluted loss per share from continuing operations	<u>\$ (0.68)</u>					<u>\$ (0.34)</u>
	50,918,572					69,964,474 (k)

Weighted average shares  
outstanding for basic and  
diluted loss per share

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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 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 we will amortize it on a straight-line basis 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)
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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	\$ 72,503	\$ 62,431	\$ 59,108	\$ 3,323
Management contracts	Various	4,611	1,115	490	625
Other	Various	5,808	1,861	821	1,040
<b>Total</b>		<u>82,922</u>	<u>65,407</u>	<u>60,419</u>	<u>4,988</u>
					<u>4,988</u>

Pro forma adjustment to amortization expense	\$ 3,541
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- (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. 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

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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 9¾% 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
<b>Subtotal</b>	<b>24,388</b>
Less: historical interest expense of CB Richard Ellis Group for \$200.0 million in aggregate principal amount of 9¾% 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)	(7,950)
Less: historical amortization of deferred financing costs of Insignia	(2,346)
<b>Subtotal</b>	<b>(24,192)</b>
<b>Net increase in interest expense</b>	<b>\$ 196</b>

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- (1) For purposes of the calculations above, LIBOR is based on the average three-month LIBOR for fiscal year 2003.
- (h) Represents the tax effect of the pro forma adjustments included in notes (b) through (g) above at the respective statutory rates.
- (i) The decrease in pro forma interest expense as a result of the offering is summarized as follows:

	<u>(In thousands)</u>
Historical interest expense on our 16% senior notes	\$ (13,203)
Historical amortization of deferred financing costs related to our 16% senior notes	(2,350)
Historical amortization of discount related to our 16% senior notes	(2,262)
Historical premiums on early redemptions of our 16% senior notes	(2,880)
Interest expense on portion of our 9¾% senior notes redeemed	(6,825)
Amortization of deferred financing costs related to portion of our 9¾% senior notes redeemed	(419)
Interest expense on portion of our senior secured term loan prepaid	(1,167)
Amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(170)
<b>Net decrease in interest expense</b>	<b>\$ (29,276)</b>

- (j)



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Represents the tax effect of the pro forma adjustments included in note (i) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.

- (k) 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. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,142,857 shares of Class A common stock that we expect to issue and sell in the offering and 343,052 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2003. The number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA BALANCE SHEET

As of March 31, 2004

(In thousands, except share data)

	<u>Historical</u>	<u>Pro Forma Adjustments for the Offering</u>	<u>Pro Forma As Adjusted</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 54,254	\$ (15,000)(a)(b)(c)	\$ 39,254
Restricted cash	15,165		15,165
Receivables, less allowance for doubtful accounts of \$16,408	272,574		272,574
Warehouse receivable	72,725		72,725
Prepaid expenses	28,899		28,899
Deferred tax assets, net	65,438	12,177 (d)	77,615
Other current assets	33,705		33,705
	<u>542,760</u>	<u>(2,823)</u>	<u>539,937</u>
Total current assets			
Property and equipment, net	117,340		117,340
Goodwill	825,679		825,679
Other intangible assets, net of accumulated amortization of \$82,362	123,694		123,694
Deferred compensation assets	81,111		81,111
Investments in and advances to unconsolidated subsidiaries	73,354		73,354
Deferred tax assets, net	30,216		30,216
Other assets, net	125,581	(6,128)(e)	119,453
	<u>\$ 1,919,735</u>	<u>\$ (8,951)</u>	<u>\$ 1,910,784</u>
Total assets			

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

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	<u>Historical</u>	<u>Pro Forma Adjustments for the Offering</u>	<u>Pro Forma As Adjusted</u>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 188,725	\$	\$ 188,725
Compensation and employee benefits payable	143,997		143,997
Accrued bonus and profit sharing	83,161		83,161
Short-term borrowings:			
Warehouse line of credit	72,725		72,725
Revolving and swingline credit facility	13,250		13,250
Other	27,846		27,846
Total short-term borrowings	113,821		113,821
Current maturities of long-term debt	11,252		11,252
Other current liabilities	12,642		12,642
Total current liabilities	553,598		553,598
Long-Term Debt:			
Senior secured term loan	285,000	(19,882)(a)	265,118
9¾% senior notes	200,000	(70,000)(a)	130,000
11¼% senior subordinated notes, net of unamortized discount of \$2,764	226,236		226,236
16% senior notes, net of unamortized discount of \$2,560	35,756	(35,756)(a)(f)	
Other long-term debt	43,500		43,500
Total long-term debt	790,492	(125,638)	664,854
Deferred compensation liability	144,996		144,996
Pension liability	38,917		38,917
Other liabilities	72,712		72,712
Total liabilities	1,600,715	(125,638)	1,475,077
Minority interest	6,860		6,860
Commitments and contingencies			
Stockholders Equity:			
Preferred stock, \$0.01 par value per share; no shares authorized, no shares issued or outstanding, actual; and 25,000,000 shares authorized, no shares issued or outstanding, pro forma as adjusted			
Class A common stock, \$0.01 par value per share; 325,000,000 shares authorized, 7,578,976 shares issued and outstanding actual; and 325,000,000 shares authorized, 68,474,440 shares issued and outstanding, pro forma as adjusted			
	76	609 (a)(g)(h)	685
Class B common stock; \$0.01 par value per share; 100,000,000 shares authorized, 53,409,556 shares issued and outstanding, actual; and no shares authorized, no shares issued or outstanding, pro forma as adjusted			
	534	(534)(g)(i)	
Additional paid-in capital	361,636	138,625 (a)(h)	500,261
Notes receivable from sale of stock	(4,388)		(4,388)
Accumulated deficit	(15,119)	(22,013)(b)(c)(d)(e)(f)	(37,132)
Accumulated other comprehensive loss	(28,267)		(28,267)
Treasury stock at cost, 405,888 shares	(2,312)		(2,312)
Total stockholders equity	312,160	116,687	428,847

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Total liabilities and stockholders equity	<u>\$ 1,919,735</u>	<u>\$ (8,951)</u>	<u>\$ 1,910,784</u>
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The accompanying notes are an integral part of these financial statements.

**Table of Contents****Notes to Unaudited Pro Forma Balance Sheet****As of March 31, 2004**

- (a) Reflects the net proceeds received from the offering, as well as the application of those net proceeds to pay down debt. The change in pro forma cash and cash equivalents as a result of the pro forma transactions is summarized as follows:

	<b>(In thousands)</b>
Proceeds from the offering	\$ 150,000
Less: estimated expenses related to the offering	(11,300)
<b>Net proceeds related to the offering</b>	<b>138,700</b>
Less: redemption of our 16% senior notes	(38,316)
Less: premium in connection with redemption of our 16% senior notes	(3,677)
Less: partial redemption of our 9 <sup>3</sup> / <sub>4</sub> % senior notes	(70,000)
Less: premium in connection with redemption of our 9 <sup>3</sup> / <sub>4</sub> % senior notes	(6,825)
Less: prepayment of portion of senior secured term loan	(19,882)
<b>Net decrease in cash and cash equivalents</b>	<b>\$</b>

- (b) Includes \$10.5 million of premium payments in connection with both the full redemption of the 16% senior notes and the partial redemption of our 9<sup>3</sup>/<sub>4</sub>% senior notes using the net proceeds from the offering.
- (c) Includes the impact of the payment of bonuses in connection with the offering in an aggregate amount of \$15.0 million to be paid to several of our non-executive real estate services employees pursuant to their employment agreements as a result of completion of the offering.
- (d) Represents the tax effect of the pro forma adjustments at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (e) Represents the write-off of unamortized deferred financing costs associated with the redemption of the remaining outstanding principal amount of our 16% senior notes, with proceeds from the offering.
- (f) Represents the write-off of unamortized discount associated with the redemption of the remaining outstanding principal amount of our 16% senior notes with proceeds from the offering.
- (g) In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio.
- (h) Reflects 7,142,857 shares of Class A common stock at an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, that we expect to issue in connection with the offering. Additionally, includes 343,052 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share as a result of the completion of the offering. The number of shares issued upon

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exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

- (i) The number of authorized shares of Class B common stock after the offering assumes the filing and effectiveness of an amendment and restatement of our certificate of incorporation immediately after the completion of the offering.

**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. 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 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			
	Three Months Ended March 31,		Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Year Ended 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	\$ 440,992	\$ 263,724	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934	\$ 1,323,604	\$ 1,213,039
Operating (loss) income	(9,272)	7,779	25,830	96,736	61,178	(17,048)	100,780	71,387
Interest expense, net	18,372	13,249	81,175	57,229	27,290	18,736	39,146	37,438
Net (loss) income	(16,568)	(1,347)	(34,704)	18,727	17,426	(34,020)	33,388	23,282
EPS (3)(4):								
Basic	(0.26)	(0.03)	(0.68)	0.45	0.80	(1.60)	1.60	1.11
Diluted	(0.26)	(0.03)	(0.68)	0.44	0.79	(1.60)	1.60	1.10
Weighted average shares (4)(5):								
Basic	62,522,176	41,651,415	50,918,572	41,640,576	21,741,351	21,306,584	20,931,111	20,998,097
Diluted	62,522,176	41,651,415	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 (used in) provided by operating activities	\$ (87,367)	\$ (70,761)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)	\$ 80,859	\$ 70,340
Net cash used in investing activities	(19,098)	(2,494)	(284,795)	(24,130)	(261,393)	(12,139)	(32,469)	(23,096)
Net cash (used in) provided by financing activities	(2,203)	11,756	303,664	(17,838)	213,831	126,230	(53,523)	(37,721)
<b>Other Data:</b>								
EBITDA (6)	10,085	17,013	132,817	130,676	74,930	11,482	150,484	117,369

	CB Richard Ellis Group				Predecessor Company	
	As of					
	March 31,	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	\$ 54,254	\$ 163,881	\$ 79,701	\$ 57,450	\$ 20,854	\$ 27,844
Total assets	1,919,735	2,213,481	1,324,876	1,354,512	963,105	929,483
Long-term debt, including current portion	801,744	802,705	509,715	517,423	289,447	348,135
Total liabilities	1,600,715	1,873,896	1,067,920	1,097,693	724,018	715,874
Total stockholders' equity	312,160	332,929	251,341	252,523	235,339	209,737

(footnotes on following page)



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*(footnotes for previous page)*

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 16 to our audited consolidated financial statements, 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 to be effected prior to the completion of the offering, 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, 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 payments and debt service requirements. 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:

**CB Richard Ellis Group**

**Predecessor Company**

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	Three Months Ended March 31,		Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Year Ended December 31,	
	2004	2003	2003	2002	2001	2001	2000	1999
<b>(In thousands)</b>								
Net (loss) income	\$ (16,568)	\$ (1,347)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)	\$ 33,388	\$ 23,282
Add:								
Depreciation and amortization	16,831	6,171	92,622	24,614	12,198	25,656	43,199	40,470
Interest expense	20,679	14,324	87,216	60,501	29,717	20,303	41,700	39,368
(Benefit) provision for income taxes	(8,550)	(1,060)	(6,276)	30,106	18,016	1,110	34,751	16,179
Less:								
Interest income	2,307	1,075	6,041	3,272	2,427	1,567	2,554	1,930
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 17,013</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 48 countries with over 13,500 employees in 220 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***

Our operations are directly affected by actual and perceived trends in various national and economic conditions that affect global and regional markets for commercial real estate services, including interest rates, the availability of credit to finance commercial real estate transactions and the impact of tax laws affecting real estate. Periods of economic slowdown or recession, rising interest rates, a declining demand for real estate or the public perception that any of these events may occur, can harm 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.

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. During 2003, 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 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 one of our largest expenses, 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***

Although we do not currently have any specific acquisition plans, 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 expenses and charges and the costs of integrating the acquired business and its financial and accounting systems into our own. For example, through March 31, 2004, we have incurred approximately \$175.0 million of transaction-related expenses in connection with our acquisition of Insignia in 2003 and approximately \$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. In addition, through March 31, 2004, we have incurred approximately \$19.0 million of costs in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own.

### ***International Operations***

We have made significant acquisitions of non-U.S. companies and, although we currently have no specific plans to do so, 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 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 exchange contracts to mitigate our exposure to exchange rate changes related to particular transactions.



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Our management historically has not generally 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, which matures on December 29, 2004. The net impact on our earnings resulting from unrealized gains and/or losses on this option agreement 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. For example, in late 2001 and early 2002 we decided to sell our wholly owned operations in Thailand, the Philippines and India. These operations had highly cyclical financial performance due to continuing economic and political instability in the region. By selling the operations and entering into cross-referral and royalty agreements with the purchasers, we were able to maintain our presence, brand and service capability in those countries while generally eliminating our financial risk. However, these measures have only mitigated our overall exposure to the risks associated with operating outside the United States.

## ***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 the development 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 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 \$20.1 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market during May 2004. In addition, we expect to use the net proceeds we receive from the 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 3/4% senior notes due 2010 and to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. Notwithstanding such activities, our level of indebtedness and the operating and financial restrictions in our debt agreements both place significant constraints on the operation of our business.

## **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.

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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



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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 merger and at the effective time of the merger became a wholly owned subsidiary of CB Richard Ellis Services. Also on July 23, 2003, immediately prior to the completion of the merger, Insignia Financial Group completed the sale of its real estate investment assets to Island Fund I LLC for cash consideration of \$36.9 million pursuant to a purchase agreement, dated as of May 28, 2003, among CB Richard Ellis Group, CB Richard Ellis Services, Apple Acquisition, Insignia Financial Group and Island Fund. These real estate investment assets consisted of Insignia Financial Group 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.

## ***Segment Reporting***

We report our operations through three geographically organized segments: (1) the Americas, (2) Europe, the 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.

In 1998, CB Richard Ellis Services, our predecessor company, expanded internationally through acquisitions. Over the ensuing few years, it was determined that the line of business segments around which the company had previously been organized, were not applicable internationally since those jurisdictions were managed on a geographic basis by country. In order to achieve global consistency, the company decided to segment itself by geographic region starting in the 2001 fiscal year.

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

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

	<b>Three Months Ended March 31,</b>			
	<b>2004</b>		<b>2003</b>	
	<b>(Dollars in thousands)</b>			
Revenue	\$ 440,992	100.0%	\$ 263,724	100.0%
Costs and expenses:				
Cost of services	224,222	50.8	123,599	46.9
Operating, administrative and other	199,251	45.2	126,175	47.8
Depreciation and amortization	16,831	3.8	6,171	2.3
Merger-related charges	9,960	2.3		
Operating (loss) income	(9,272)	(2.1)	7,779	2.9
Equity income from unconsolidated subsidiaries	2,526	0.6	3,063	1.2
Interest income	2,307	0.5	1,075	0.4
Interest expense	20,679	4.7	14,324	5.4
Loss before benefit for income taxes	(25,118)	(5.7)	(2,407)	(0.9)
Benefit for income taxes	(8,550)	(1.9)	(1,060)	(0.4)
Net loss	\$ (16,568)	(3.8)%	\$ (1,347)	(0.5)%
EBITDA	\$ 10,085	2.3%	\$ 17,013	6.5%

	<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	6,041	0.4	3,272	0.3	3,994	0.4
Interest expense	87,216	5.4	60,501	5.2	50,020	4.3

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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, 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

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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 (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 payments and debt service requirements. 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>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>	
Net loss	\$ (16,568)	\$ (1,347)
Add:		
Depreciation and amortization	16,831	6,171
Interest expense	20,679	14,324
Benefit for income taxes	(8,550)	(1,060)
Less:		
Interest income	2,307	1,075
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 17,013</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	87,216	60,501	50,020
(Benefit) provision for income taxes	(6,276)	30,106	19,126
Less:			
Interest income	6,041	3,272	3,994

EBITDA	\$ 132,817	\$ 130,676	\$ 86,412
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*Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003*

We reported a consolidated net loss of \$16.6 million for the three months ended March 31, 2004 on revenue of \$441.0 million as compared to a consolidated net loss of \$1.3 million on revenue of \$263.7 million for the three months ended March 31, 2003.

Our revenue on a consolidated basis increased by \$177.3 million, or 67.2%, as compared to the three months ended March 31, 2003. The overall increase was primarily driven by our acquisition of Insignia, which resulted

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in higher revenues in our Americas real estate services business line particularly relative to leasing activity in the New York area, combined with increased lease transaction revenue in London and Paris, as well as higher appraisal and consultation fees in the United Kingdom. The increase in revenue was also due to the continued improvement of general economic conditions in the United States, which resulted in higher sales transaction revenue as well as increased lease transaction revenue and management fees, and foreign currency translation, which had a \$17.4 million positive impact on total revenue during the three months ended March 31, 2004.

Our cost of services on a consolidated basis increased by \$100.6 million, or 81.4%, as compared to the three months ended March 31, 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 our acquisition of Insignia, which resulted in higher payroll-related costs, including bonus accruals, insurance and benefits, producer retention and broker draw amortization. We paid bonuses to the top advisory services professionals of Insignia that we retained in the acquisition. The producer retention expense represents that amortization of these bonuses, which are being amortized to 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 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 we will amortize it on a straight-line basis during that period. During the three months ended March 31, 2004, we have recorded a \$2.2 million adjustment for the amortization of this broker draw asset on a cumulative basis. The producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$3.6 million for the three months ended March 31, 2004. The increase was also due to the overall increase in worldwide sales and lease transaction revenue, as well as foreign currency translation, which had an \$8.0 million negative impact on cost of services during the three months ended March 31, 2004. Cost of services as a percentage of revenue increased from 46.9% in the first quarter of 2003 to 50.8% in the first quarter of 2004 primarily as a result of 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 within our Americas segment. However, we expect that the full year 2004 cost of services percentage of revenue will be more comparable to the full year 2003 cost of services percentage of revenue.

Our operating, administrative and other expenses on a consolidated basis were \$199.3 million, an increase of \$73.1 million, or 57.9%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003. The increase was primarily driven by higher costs as a result of the Insignia acquisition, including \$1.8 million of integration costs, as well as increased worldwide payroll-related expenses, such as bonuses and insurance and benefits, principally in the Americas and Europe. Higher occupancy expense in the United Kingdom as a result of our relocation to new facilities in the fourth quarter of 2003 also contributed to the increase. Additionally, lower net foreign currency transaction gains contributed to the overall increase over the prior year. Although the U.S. dollar continued to weaken during the quarter, a trend that we have experienced over the past few years, it has weakened at a slower rate, which has reduced this positive offset to total operating expenses versus the prior year. Finally, foreign currency translation had an \$8.8 million negative impact on total operating expenses during the three months ended March 31, 2004.

Our depreciation and amortization expense on a consolidated basis increased by \$10.7 million, or 172.7%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003 primarily due to \$7.6 million of amortization expense related to intangibles acquired in the Insignia acquisition, including \$6.8 million related to acquired net revenue backlog. As of March 31, 2004, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Insignia acquisition was \$6.6 million, which is expected to be fully amortized by the end of 2004. For additional information, see note 7 to our consolidated financial statements for the three months ended March 31, 2004 included elsewhere in this prospectus.

Our merger-related charges on a consolidated basis were \$10.0 million for the three months ended March 31, 2004. These charges primarily consisted of lease termination costs associated with vacated spaces, consulting costs and severance costs, all of which are attributable to the Insignia acquisition.



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Our equity income from unconsolidated subsidiaries on a consolidated basis decreased \$0.5 million, or 17.5%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, primarily due to a one-time gain on the sale of owned units in an investment fund in the prior year.

Our consolidated interest expense was \$20.7 million for the three months ended March 31, 2004, an increase of \$6.4 million, or 44.4%, as compared to the three months ended March 31, 2003, which was primarily due to debt incurred in connection with the Insignia acquisition.

Our benefit for income taxes on a consolidated basis was \$8.6 million, an increase of \$7.5 million, or 706.6%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003. The effective tax rate decreased from 44% in the first quarter of 2003 to 34% in first quarter of 2004, primarily as a result of non-taxable gains recognized from our deferred compensation plan during the current quarter compared to non-deductible losses experienced in the first quarter of 2003, coupled with the impact of lower non-deductible interest expense.

### ***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 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

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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 transaction gains resulting from the weaker U.S. dollar. Over 2003 and 2002, the U.S. dollar has continued to weaken, which has resulted in us recognizing foreign currency transaction 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 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 \$87.2 million for the year ended December 31, 2003, an increase of \$26.7 million, or 44.2%, as compared to the year ended December 31, 2002. This increase was primarily driven by a one-time \$6.8 million write-off of unamortized deferred financing fees associated with our prior credit facility and \$6.6 million of nonrecurring 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. Additionally, interest expense was higher in 2003 as a result of the new debt incurred in connection with the Insignia acquisition.

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

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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 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.

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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

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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 our Americas, EMEA and Asia Pacific operating segments for the three months ended March 31, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001. Our Americas results for the three months ended March 31, 2004 include merger-related charges of \$7.6 million 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 three months ended March 31, 2004 include merger-related charges of \$2.3 million 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.

	<b>Three Months Ended March 31,</b>			
	<b>2004</b>		<b>2003</b>	
	(Dollars in thousands)			
<b>The Americas</b>				
Revenue	\$ 327,191	100.0%	\$ 199,950	100.0%
Costs and expenses:				
Cost of services	173,896	53.1	94,993	47.5
Operating, administrative and other	135,165	41.3	89,165	44.6
Depreciation and amortization	10,309	3.2	4,522	2.3
Merger-related charges	7,616	2.3		
Operating income	\$ 205	0.1%	\$ 11,270	5.6%
EBITDA	\$ 12,994	4.0%	\$ 19,018	9.5%
<b>EMEA</b>				
Revenue	\$ 85,357	100.0%	\$ 45,478	100.0%
Costs and expenses:				
Cost of services	36,225	42.4	19,563	43.0
Operating, administrative and other	51,067	59.8	25,690	56.5
Depreciation and amortization	5,706	6.7	913	2.0
Merger-related charges	2,344	2.8		
Operating loss	\$ (9,985)	(11.7)%	\$ (688)	(1.5)%
EBITDA	\$ (4,517)	(5.3)%	\$ 99	0.2%
<b>Asia Pacific</b>				
Revenue	\$ 28,444	100.0%	\$ 18,296	100.0%

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Costs and expenses:				
Cost of services	14,101	49.6	9,043	49.4
Operating, administrative and other	13,019	45.8	11,320	61.9
Depreciation and amortization	816	2.8	736	4.0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating income (loss)	\$ 508	1.8%	\$ (2,803)	(15.3)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
EBITDA	\$ 1,608	5.7%	\$ (2,104)	(11.5)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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	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
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%	\$ 36,996	4.0%
EBITDA	\$ 107,503	9.0%	\$ 98,251	11.0%	\$ 68,226	7.3%
<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, 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.



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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 interest payments, tax payments and debt service requirements.

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

	Three Months Ended March 31,	
	2004	2003
(In thousands)		
<b>The Americas</b>		
Operating income	\$ 205	\$ 11,270
Add:		
Depreciation and amortization	10,309	4,522
Equity income from unconsolidated subsidiaries	2,480	3,226
<b>EBITDA</b>	<b>\$ 12,994</b>	<b>\$ 19,018</b>
<b>EMEA</b>		
Operating loss	\$ (9,985)	\$ (688)
Add:		
Depreciation and amortization	5,706	913
Equity loss from unconsolidated subsidiaries	(238)	(126)
<b>EBITDA</b>	<b>\$ (4,517)</b>	<b>\$ 99</b>
<b>Asia Pacific</b>		
Operating income (loss)	\$ 508	\$ (2,803)
Add:		
Depreciation and amortization	816	736
Equity income (loss) from unconsolidated subsidiaries	284	(37)
<b>EBITDA</b>	<b>\$ 1,608</b>	<b>\$ (2,104)</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

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Add:			
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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Revenue increased by \$127.2 million, or 63.6%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003 primarily driven by the expansion of our market share in our real estate services business line through our acquisition of Insignia, particularly in leasing activity in the New York area. Additionally, the continued improvement of general economic conditions in the United States led to an increase in the volume of commercial real estate transactions resulting in higher sales transaction revenue as well as increased lease transaction revenue and management fees. Cost of services increased by \$78.9 million, or 83.1%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003 primarily due to higher commission expense, bonus accruals, insurance and benefits, producer retention and broker draw amortization as a result of the Insignia acquisition as well as the higher sales and lease transaction revenue. The producer retention expense, which represents amounts paid to the top 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 represents the cumulative adjustment for the amortization of the broker draw asset acquired in the Insignia acquisition, the fair value of which was refined during the three months ended March 31, 2004. The remaining net broker draw asset of \$4.4 million will be amortized on a straight-line basis over the next sixteen months. Both the producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$3.0 million for the three months ended March 31, 2004. Cost of services as a percentage of revenue increased from 47.5% in the first quarter of 2003 to 53.1% in the first quarter of 2004, primarily as a result of 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. However, we expect that the full year 2004 cost of services percentage of revenue for our Americas segment will be more comparable to the full year 2003 cost of services percentage of revenue. Operating, administrative and other expenses increased \$46.0 million, or 51.6%, mainly caused by higher costs as a result of the Insignia acquisition, including integration expenses of \$1.8 million, as well as increased bonuses and insurance and benefits costs. Additionally, lower net foreign currency transaction gains reduced the positive offset to total operating expenses versus the prior year.

*EMEA*

Revenue increased by \$39.9 million, or 87.7%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, primarily driven by the Insignia acquisition as evidenced by higher lease transaction revenue in London and Paris, as well as increased appraisal and consultation fees, predominantly in the United Kingdom. Foreign currency translation had an \$11.3 million positive impact on total revenue during the three months ended March 31, 2004. Cost of services increased \$16.7 million, or 85.2%, as a result of higher producer compensation expense as well as increased payroll-related costs, particularly in the United Kingdom and France, primarily driven by the Insignia acquisition. Also included in producer compensation expense were integration costs of \$0.6 million, representing amounts paid to the top producers of Insignia in the United Kingdom, which is being amortized over the respective lives of their underlying employment agreements. Foreign currency translation had a \$4.6 million negative impact on cost of services during the current quarter. Operating, administrative and other expenses increased by \$25.4 million, or 98.8%, mainly driven by increased costs as a result of the Insignia acquisition, including higher payroll related expenses. Additionally, occupancy expense was higher in the United Kingdom as a result of our relocation to new facilities in the fourth quarter of 2003. Lastly, foreign currency translation had a \$6.4 million negative impact on total operating expenses during the three months ended March 31, 2004.

*Asia Pacific*

Revenue increased by \$10.1 million, or 55.5%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003. The increase was primarily driven by an overall increase in revenue in



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Australia and Japan, primarily resulting from our incremental efforts to increase our market share in this region. Foreign currency translation had a \$3.8 million positive impact on total revenue during the current quarter. Cost of services increased by \$5.1 million, or 55.9%, mainly attributable to increased transaction revenue as well as higher producer compensation expense due to increased headcount in Australia and Japan resulting from our incremental efforts to increase our market share in this region. Foreign currency translation had a \$2.1 million negative impact on cost of services for the three months ended March 31, 2004. Operating, administrative and other expenses increased by \$1.7 million, or 15.0%, primarily due to higher payroll related costs in Australia and Japan, again attributable to increased headcount. Foreign currency translation had a \$1.7 million negative impact on total operating expenses during the three months ended March 31, 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 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 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.



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*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 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

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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 we can satisfy our working capital requirements and funding of investments with internally generated cash flow and 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 are approximately \$40 million of anticipated capital expenditures, net of concessions received, during 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, including those reflected in the summary of contractual obligations and other commitments table below, for the foreseeable future, but at a minimum for the next twelve months.

Although we currently do not have any specific acquisition plans, our management believes that any future material 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, 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 2008, our 9<sup>3</sup>/<sub>4</sub>% senior notes in 2010 and our 16% senior notes and 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in 2011. We expect to use a portion of the net proceeds we receive from the offering to redeem all 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 due 2010 and to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay the other amounts of 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 assure you 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 are our obligations related to our deferred compensation plan and our U.K. pension plans. Pursuant to our deferred compensation plan, 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



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common stock, the deferrals under the deferred compensation plan 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 plan, 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 plan and pension plans that are not currently funded will be funded out of our future cash flow from operations.

<b>Contractual Obligations</b>	<b>Payments Due 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)				
Total debt (1)	\$ 1,072,842	\$ 281,422	\$ 20,384	\$ 309,287	\$ 461,749
Operating leases (2)	710,262	96,123	167,164	134,094	312,881
Deferred compensation plan liability (3)(4)	138,037	6,087	13,435	12,117	106,398
Pension liability (3)(4)	35,998				35,998
<b>Total Contractual Obligations</b>	<b>\$ 1,957,139</b>	<b>\$ 383,632</b>	<b>\$ 200,983</b>	<b>\$ 455,498</b>	<b>\$ 917,026</b>

<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 (2)	\$ 22,557	\$ 22,557	\$	\$	\$
Guarantees (2)	8,976	8,976			
Co-investment commitments (2)	26,564	22,903	3,661		
<b>Total Commitments</b>	<b>\$ 58,097</b>	<b>\$ 54,436</b>	<b>\$ 3,661</b>	<b>\$</b>	<b>\$</b>

- (1) Includes capital lease obligations, but does not include the purchases by us of \$20.1 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market in May 2004, the expected refinancing of our senior secured credit facilities in connection with the completion of the offering, the expected redemption with a portion of the proceeds we receive from the offering of \$38.3 million in aggregate principal amount of our 16% notes and \$70.0 million in aggregate principal amount of our 9 3/4% senior notes or the expected prepayment with a portion of the proceeds we receive from the offering of \$19.9 million of our term loan.
- (2) See note 13 to our audited consolidated financial statements included elsewhere in this prospectus.
- (3) See note 11 to our audited consolidated financial statements included elsewhere in this prospectus.
- (4) 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.

*Historical Cash Flows*

*Operating Activities*

Net cash used in operating activities totaled \$87.4 million for the three months ended March 31, 2004, an increase of \$16.6 million compared to the three months ended March 31, 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

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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 used in investing activities totaled \$19.1 million for the three months ended March 31, 2004, an increase of \$16.6 million compared to the three months ended March 31, 2003. This increase was primarily due to costs incurred in 2004 associated with the Insignia acquisition. Capital expenditures, net of concessions received, of \$10.4 million during the three months ended March 31, 2004 were \$6.4 million higher than during the three months ended March 31, 2003. This increase was primarily due to integration costs related to leasehold improvements in new and combined offices.

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.

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 \$2.2 million for the three months ended March 31, 2004 compared to net cash provided by financing activities of \$11.8 million for the three months ended March 31, 2003. The increase in cash used in financing activities was primarily due to the repayment of the Euro cash pool loan in 2004.

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.

***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. In

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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. However, we currently do not have any specific acquisition plans. 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 our acquisition of Insignia. The CB Richard Ellis Services acquisition, which was a 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.

In order to partially fund our acquisition of CB Richard Ellis Services in 2001, we entered into a credit agreement with Credit Suisse First Boston, or CSFB, and other lenders and borrowed \$235.0 million of term loans on July 20, 2001. To partially fund our acquisition of Insignia Financial Group in 2003, we amended and restated this credit agreement and borrowed an aggregate of an additional \$75.0 million of term loan on July 23, 2003. On October 14, 2003, we refinanced all of the outstanding loans under our amended and restated credit agreement and entered into a new amended and restated credit agreement. On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provides for the refinancing of all outstanding amounts under our current credit agreement and the amendment and restatement of our credit agreement upon the completion of the offering. The new amended and restated credit agreement generally will permit us, among other things, to use the net proceeds we receive from the offering in the manner described in this prospectus, including the redemption 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 \$19.9 million in principal amount of term loan under our amended and restated credit agreement. The new amended and restated credit agreement also will include the following: (1) a term loan facility of \$295.0 million, requiring quarterly principal payments of \$2.95 million through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$90.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. We expect that the new amended and restated credit agreement also will include an incremental revolving facility of \$60.0 million that will mature on March 31, 2009. The new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, subject to the satisfaction of customary conditions. The \$90.0 million revolving credit facility 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 outstanding amounts under our revolving credit facility. At March 31, 2004, however, we had \$13.3 million outstanding under our revolving credit facility.

Borrowings under the term loan facility bear interest at varying rates based, at our option, at 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 and Poor's. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as described in the immediately preceding sentence or, in some circumstances described in the new amended and restated credit agreement, at a higher or lower rate. Borrowings under the revolving credit facility bear 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. We expect the \$60.0 million incremental revolving credit facility to bear interest at varying rates based, at our option, at either LIBOR plus 2.00% to 2.50% or the alternative base rate plus 1.00% to 1.50%, in both cases as determined by references to our ratio of total debt less available cash to EBITDA. The alternate



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base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. In addition, we are required to pay a revolving credit facility fee based on the total amount of the unused commitment, including the \$60.0 million incremental revolving credit facility. The borrowings under the 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. The total amount outstanding under the term loan facility included in senior secured term loans and current maturities of long-term debt in the our consolidated balance sheets included elsewhere in this prospectus was \$295.0 million and \$297.5 million as of March 31, 2004 and December 31, 2003, respectively. We expect to use a portion of the net proceeds we receive from the offering to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement.

On May 22, 2003, CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, issued \$200.0 million in aggregate principal amount of 9¾% 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 proceeds were released from escrow in order to partially fund the acquisition, CBRE Escrow merged with and into CB Richard Ellis Services and CB Richard Ellis Services assumed all obligations with respect to the 9¾% senior notes. The 9¾% 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 9¾% 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 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% 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 9¾% senior notes at 109¾% 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 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in our consolidated balance sheets included elsewhere in this prospectus was \$200.0 million as of March 31, 2004 and December 31, 2003. We expect to use a portion of the net proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, which also will require payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption.

In order to partially finance our acquisition of CB Richard Ellis Services in 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount, on June 7, 2001. CB Richard Ellis Services assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the merger of Blum CB with and into CB Richard Ellis Services on July 20, 2001. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% 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 111¼% 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 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11¼% senior subordinated notes included in our consolidated balance sheets included elsewhere in this prospectus, net of unamortized discount, was \$226.2 million as of March 31, 2004 and December 31, 2003, respectively. In May 2004, we purchased \$20.1 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid \$2.9 million of premiums in connection with these purchases.

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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 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 16.0% 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 the interest in excess of 12.0% that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003.

In the event of a change in control, we are obligated to make an offer to purchase all of our outstanding 16% senior notes at 101.0% of par. In addition, under the terms of the indenture governing the 16% senior notes, the 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 our 16% senior notes pursuant to these exceptions. We paid \$2.9 million of premiums in connection with these redemptions.

The amount of the 16% senior notes included in the accompanying consolidated balance sheets included elsewhere in this prospectus, net of unamortized discount, was \$35.8 and \$35.5 million as of March 31, 2004 and December 31, 2003, respectively. We expect to use a portion of the net proceeds we receive from the offering to redeem the remaining \$38.3 million in aggregate principal amount of our 16% senior notes, which also will require payment of a \$3.7 million premium and accrued and unpaid interest through the date of redemption.

Our amended and restated credit agreement and the indentures governing our 16% senior notes, our 9¾% senior notes and our 11¼% 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 to funded debt.

From time to time, Moody's Investors Service and Standard and Poor's Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% senior subordinated notes. Although neither the Moody's nor the Standard and 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.

During 2001, a joint venture that we consolidated incurred \$37.2 million of non-recourse debt to acquire a real estate investment in Japan. The debt is secured by a mortgage on the acquired real estate asset. During the third quarter of 2003, the maturity date on this debt was extended to July 31, 2008. In our accompanying consolidated balance sheets, this debt comprised \$42.6 million and \$41.8 million of our other long-term debt as of March 31, 2004 and December 31, 2003, respectively. 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. As of March 31, 2004 and December 31, 2003, \$2.0 million of this non-recourse debt is included in short-term borrowings in our consolidated balance sheet included elsewhere in this prospectus.

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. The agreement provides for a revolving warehouse line of credit of up to \$200.0 million, bears interest at one-month LIBOR plus 1.0% and expires on August 31, 2004 and all outstanding borrowings will be due unless it is extended. 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. By amendment on November 14, 2003, the agreement was modified to provide a revolving line of credit increase of \$50.0 million



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that resulted in a total line of credit equaling \$250.0 million, which expires on August 31, 2004. On May 12, 2004, the agreement was modified to provide a temporary revolving line of credit increase of \$100.0 million that will result in a total line of credit equaling \$350.0 million. This increase will be effective on May 30, 2004 and expire 90 days after the effective date. We have a long-term business relationship with RFC and have entered into a number of amendments to the line of credit since its inception. Accordingly, we expect that we will reach a satisfactory amendment to extend the term of the agreement prior to its expiration on August 31, 2004. However, if we are 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 three months ended March 31, 2004 and the year ended December 31, 2003, respectively, we had a maximum of \$230.8 million and \$272.5 million revolving line of credit principal outstanding with RFC. At March 31, 2004 and December 31, 2003, respectively, we had a \$72.7 million and a \$230.8 million warehouse line of credit outstanding, which are included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus. Additionally, we had a \$72.7 million and a \$230.8 million warehouse receivable representing mortgage loans funded through the line of credit that had not been purchased as of March 31, 2004 and December 31, 2003, respectively, which are also included in our consolidated balance sheets included elsewhere in this prospectus.

L.J. Melody & Company also 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. L.J. Melody uses this credit line from time to time to fund short-term investments in governmental and quasi-governmental instruments. Any such investments acquired by L.J. Melody are pledged as collateral for outstanding borrowings under the credit line. At March 31, 2004 and December 31, 2003, no amounts were outstanding under this line of credit.

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 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 March 31, 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 March 31, 2004 and December 31, 2003 \$12.6 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 the 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 \$11.5 million as of December 31, 2003. At March 31, 2004, there were no amounts outstanding under the Euro cash pool.

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### ***Deferred Compensation Plan Obligations***

Each participant in our deferred compensation plan, or DCP, 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. 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 30 mutual funds. In addition, prior to our acquisition of CB Richard Ellis Services in 2001, participants were entitled to invest their deferrals in stock fund units that allowed them to receive future distributions of shares of CB Richard Ellis Services common stock. As of April 30, 2004, there were 3,129,370 shares underlying outstanding stock fund units under the DCP, 1,948,215 of which had vested. Shares are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants or distributions made by us. Except for the stock funds units, all deferrals under the DCP represent obligations to make future cash payments. The deferred compensation liability in our consolidated balance sheets included elsewhere in this prospectus was \$145.0 million and \$138.0 million at March 31, 2004 and December 31, 2003 and 2002, respectively.

Effective January 1, 2004, we closed 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. As permitted by its terms, we expect to terminate the DCP shortly after the offering is completed and adopt a new deferred compensation plan. The existing deferrals under the interest index funds and the insurance fund in the DCP will be paid to participants in the future according to their existing deferral elections under the plan. With respect to existing deferrals in stock fund units, we expect that substantially all of the shares of common stock underlying such units will be distributed to participants in distributions initiated by us during October of 2004.

Because a substantial majority of the deferrals under the 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. As the level of employee departures 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 leave our employment than we expect.

### ***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 \$38.9 million and \$36.0 million at March 31, 2004 and December 31, 2003, respectively.

### ***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 March 31, 2004, 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,

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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

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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 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 \$24.3 million as of March 31, 2004, excluding letters of credit securing our outstanding indebtedness. Approximately \$12.6 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 \$10.7 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island Fund 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 at any one time and these outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The remaining outstanding letter of credit, which is for the Fannie Mae agreement as described above, was issued pursuant to a credit agreement with Wells Fargo Bank. Under this agreement, we may issue up to a maximum of \$8.0 million of letters of credit at any one time and these outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The outstanding letters of credit as of March 31, 2004 expire at varying dates through March 31, 2005. However, we are obligated to renew the letters of credit related to certain office leases until as late as 2023, 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 \$9.0 million as of March 31, 2004, which consisted primarily of guarantees of property debt, as well as the obligations to Island Fund and Fannie Mae discussed above. Approximately \$4.8 million of the guarantees is related to investment activity that is scheduled to expire in October 2008. Approximately \$1.7 million of the guarantees is 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 Fund 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. Renewals, modifications and extensions of such loan may be made without our consent, but the \$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.

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 March 31, 2004, we had committed \$22.6 million to fund future co-investments. We expect that approximately \$19 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.

As a result of the completion of the offering, we will incur an aggregate of \$15.0 million of compensation expenses relating to bonus payments that are payable to several of our non-executive real estate services employees pursuant to their employment agreements.





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### **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.

### **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

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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.

### ***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.

### **New Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, or 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, or 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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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.

## **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 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 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 three months ended March 31, 2004, foreign currency translation had a \$17.4 million positive impact on total revenue and a \$16.8 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

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transactions, as appropriate. We apply Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities*, when accounting for any such contracts. 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 March 31, 2004, we had foreign currency exchange forward contracts with an aggregate notional amount of \$34.2 million that mature on various dates through December 31, 2004. The net impact on our earnings for the three months ended March 31, 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 matures on December 29, 2004.

*Interest Rates*

We manage our interest expense by using a combination of fixed and variable rate debt. Our fixed and variable rate long-term debt at December 31, 2003 consisted of the following:

<u>Year of Maturity</u>	<u>Fixed Rate</u>	<u>One-Month Yen LIBOR +3.5%</u>	<u>One-Month LIBOR +1.0%</u>	<u>Six-Month LIBOR +3.25%</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	\$ 20,445	\$	\$ 230,790	\$ 12,006 (1)	\$ 12,663	\$ 373	\$ 5,145	\$ 281,422
2005	367			10,000				10,367
2006	17			10,000				10,017
2007	17			10,000				10,017
2008	17	41,753		257,500 (2)				299,270
Thereafter (3)	461,749							461,749
<b>Total</b>	<b>\$ 482,612</b>	<b>\$ 41,753</b>	<b>\$ 230,790</b>	<b>\$ 299,506</b>	<b>\$ 12,663</b>	<b>\$ 373</b>	<b>\$ 5,145</b>	<b>\$ 1,072,842</b>
<b>Weighted average interest rate</b>	<b>10.8%</b>	<b>3.9%</b>	<b>2.1%</b>	<b>4.4%</b>	<b>5.5%</b>	<b>3.8%</b>	<b>1.5%</b>	<b>6.8%</b>

- (1) Includes \$10.0 million relating to our senior secured credit facilities and \$2.0 million related to our Westmark senior notes (see note 12 to our audited consolidated financial statements included elsewhere in this prospectus).
- (2) Consists of amounts due under our senior secured credit facilities. These amounts will be refinanced in connection with the completion of the offering. The expected interest rates applying to such amounts after such refinancing are not reflected in this table. In addition, we expect to use a portion of the proceeds we receive from the offering to prepay \$19.9 million in principal amount of these amounts.
- (3) Primarily includes our 11¼% senior subordinated notes, 9¾% senior notes and 16% senior notes. In May 2004, we purchased \$20.1 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. In addition, we expect to use a portion of the proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes and the remaining \$38.3 million in aggregate principal amount of our 16% senior notes.

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We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 35 basis points, approximately 10% of the weighted average interest rates of our outstanding variable rate debt at December 31, 2003, the net impact would be a decrease of \$2.1 million on annual pre-tax income and cash provided by operating activities for the year ended December 31, 2003.

Based on dealers' quotes at December 31, 2003, the estimated fair values of our 9¾% senior notes and 11¼% senior subordinated notes were \$222.0 million and \$256.5 million, respectively. There was no trading.



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activity for our 16% senior notes due in 2011. The carrying value of our 16% senior notes as of December 31, 2003 totaled \$35.5 million. 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 December 31, 2003.

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 Statement of Financial Accounting Standards 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 48 countries with over 13,500 employees in 220 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 the Insignia acquisition, we now operate globally under the CB Richard Ellis brand name, which we believe is

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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 February 2004 we filed a registration statement, which included this prospectus, with the Securities and Exchange Commission, or SEC, for an 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 9¾% senior notes due 2010 and our 11¼% 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 billion in 1994. REITs were the main drivers of this growth, with a portfolio increase of more than 400% over

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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 73.5% 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 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 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



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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 one of our largest expenses, 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.

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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. 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 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, 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.

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### *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 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*

Our EMEA segment has 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. The EMEA segment accounted for 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.

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 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*

Our Asia Pacific segment has 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

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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 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 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.

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**Variable Cost Structure.** Compensation is one of our largest expenses, 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, 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 senior management team beneficially owned approximately 3.9% of our common stock as of April 30, 2004, and our employees, as a group, beneficially owned 10.2% of our common stock on the same date. After giving effect to the offering, our senior management team will beneficially own approximately 3.4% and our employees as a group will beneficially own approximately 9.1% of our outstanding common stock.

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 significant debt service obligations. For the year ended December 31, 2003, on a pro forma basis, our interest expense was \$63.3 million. In addition, the instruments governing our indebtedness impose significant 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, 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.

**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.

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### **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 customers' business and real estate strategies and matching our services to the customers' 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.

***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.



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***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**

At December 31, 2003, we had approximately 13,500 employees worldwide. At 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.

## **Intellectual Property**

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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

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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. 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.

**Facilities**

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

<u>Location</u>	<u>Sales Offices</u>	<u>Corporate Offices</u>	<u>Total</u>
The Americas	139	2	141

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Europe, Middle East and Africa	52	1	53
Asia Pacific	25	1	26
	<u>          </u>	<u>          </u>	<u>          </u>
Total	216	4	220
	<u>          </u>	<u>          </u>	<u>          </u>

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

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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.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following table sets forth information about our executive officers and directors as of April 30, 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	54	President, EMEA
Robert Blain	48	President, Asia Pacific
Richard C. Blum	68	Chairman of the Board of Directors
Jeffrey A. Cozad	39	Director
Patrice Marie Daniels	43	Director
Bradford M. Freeman	62	Director
Michael Kantor	64	Director
Frederic V. Malek	67	Director
Jeffrey S. Pion	42	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.

*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

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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 is currently a director of Playtex Products, Inc., but will not seek re-election at the company's 2004 annual meeting. 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 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.





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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, after the completion of the offering 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 up to three additional directors 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, after the completion of the offering our stockholders affiliated with Freeman Spogli & Co. Incorporated are entitled to nominate one of our directors, and they have nominated Mr. Freeman.

## **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:

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;

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- 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;
- 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;

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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 Quebecor Printing Inc. in 1999, from January 1998 to October 1999.

Our board of directors has adopted a written charter for the audit committee which will be available on our website prior to completion of the offering.

### ***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.

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.

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Our board of directors has adopted a written charter for the corporate governance and nominating committee which will be available on our website prior to completion of the offering.

### ***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 will be available on our website prior to completion of the offering.

### ***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.

#### **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

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global controller and (3) corporate governance guidelines, each in accordance with applicable rules and regulations of the SEC and the NYSE. Prior to completion of the offering, each of these codes of ethics and conduct and the corporate governance guidelines will be 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, we recently adopted a director compensation policy that 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, we anticipate making automatic grants of stock options and restricted stock, as described above, to our current outside directors pursuant to our 2004 stock incentive plan, the terms of which are described below. These grants will be pro-rated to cover only the period from the date the registration statement of which this prospectus is a part is 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		All Other Compensation (5)
		Salary	Bonus (1)	Other Annual Compensation (2)(3)	Restricted Stock Awards (2)(4)	Securities Underlying Stock Options	
Ray Wirta Chief Executive Officer	2003	\$ 573,129	\$ 521,310	\$ 28,560		232,794	\$
	2002	518,511		27,359			
	2001	518,510		8,092		488,184	489,375
Brett White President	2003	506,156	355,481	15,284		232,794	
	2002	450,501		71,897			
	2001	415,883		62,552		392,929	971,000 (6)
Kenneth J. Kay (7) Current Senior Executive Vice President and Chief Financial Officer	2003	450,000	300,000			99,769	
	2002	207,692				171,824	300,000 (8)
James H. Leonetti (9) Former Senior Executive Vice President and Chief Financial Officer	2002	147,138					170,000 (10)
	2001	254,458				47,629	453,500 (11)
Alan C. Froggatt (12) President, EMEA	2003	337,351	536,190	20,777 (13)		83,141	566 (14)
Robert Blain (15) President, Asia Pacific	2003	302,308	344,506	157,692		69,284	
	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 83,141 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 177,542 shares to Mr. Wirta and 73,613 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 are not publicly traded. 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 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 Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
					Ray Wirta	232,794
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.

**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		

**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. The 2001 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 18,013,856 shares of Class A common stock have been reserved for issuance under the 2001 stock incentive plan, and 9,689,975 shares remained available for future issuance as of April 30, 2004. The number of shares issued or reserved pursuant to the 2001 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 2001 stock incentive plan. No award may be granted under the 2001 stock incentive plan after June 7, 2011, but awards granted prior to June 7, 2011 may extend beyond that date.

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. The board of directors has the sole discretion to determine the employees, directors and independent contractors to whom awards may be granted under the 2001 stock incentive plan and the manner in which the awards will vest. Options, stock appreciation

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rights, restricted stock, restricted stock units and other stock-based awards will be granted by the board of directors to employees, directors and independent contractors in the numbers and at the times during the term of the 2001 stock incentive plan as the board of directors determines.

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.

Our 2001 stock incentive plan is expected to be terminated prior to the completion of the offering. Outstanding stock awards granted under the 2001 stock incentive plan will remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards.

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

Our board of directors has adopted, and our stockholders have approved, our 2004 stock incentive plan, which will become effective on the date the registration statement of which this prospectus is a part is declared effective by the SEC. 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.

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;



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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

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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 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 Plan***

Our deferred compensation plan, or 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 generally either after his or her employment with us ends or until a future distribution date at least three years after the deferred

election date, and have it credited to one or more of several funds in the DCP. The investment alternatives available to participants in connection with their deferrals include two interest index funds and an insurance fund in which

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gains and losses on deferrals are measured by one or more of approximately 30 mutual funds. In addition, prior to our acquisition of CB Richard Ellis Services in 2001, participants were entitled to invest their deferrals in stock fund units that entitled the participants to receive future distributions of shares of our common stock, which stock fund units now represent the right to receive future distributions of shares of CB Richard Ellis Group common stock. As of April 30, 2004, there were 3,129,370 shares underlying outstanding stock fund units under the DCP, of which 1,948,215 had vested, which shares are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants or distributions by us. The deferred compensation plan 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.

Effective January 1, 2004, we closed 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. As permitted by its terms, we expect to terminate the DCP shortly after the offering is completed and adopt a new deferred compensation plan. The existing deferrals under the interest index funds and the insurance fund in the DCP will be paid to participants in the future according to their existing deferral elections under the plan. With respect to existing deferrals in stock fund units, we expect that substantially all of the shares of common stock underlying such units will be distributed to participants in distributions initiated by us during October of 2004.

### ***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 15% 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.

In connection with our acquisition of CB Richard Ellis Services in 2001, participants were entitled to make a one-time election to invest in shares of our common stock to be credited to their account balance within the plan, which shares continue to be held in the plan. Since the 2001 acquisition, participants have not been entitled to purchase additional shares of our common stock for allocation to their account balance. We expect to amend the plan, effective shortly after completion of the offering, to allow participants in the plan to transfer their account balances into and out of shares of our common stock, as well as to purchase additional shares of our common stock in connection with future deferrals under the plan.

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 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.

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

*Kenneth J. Kay*

On June 13, 2002, Mr. Kay entered into a two-year employment agreement with us to serve as our chief financial officer. Pursuant to Mr. Kay's employment agreement, he received a sign-on bonus of \$300,000 and he receives an annual base salary of \$450,000 and is eligible for an annual bonus of up to 66<sup>2</sup>/<sub>3</sub>% of his base salary based upon the achievement of performance goals established by our board of directors. Additionally, Mr. Kay

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was granted options to purchase 171,824 shares of our Class A common stock at a \$5.77 per share exercise price, which vest 20% per year on the anniversary date of the grant over the next five years. Pursuant to the terms of the our 2001 stock incentive plan, all unvested options held by Mr. Kay will automatically vest if there is a change of control, as defined in the plan.

If prior to the second anniversary of the agreement we terminate Mr. Kay's employment for any reason, he is entitled to receive a severance payment equal to 100% of one year's base salary. If Mr. Kay voluntarily resigns from his employment within the first 24 months of employment, he will not be eligible to receive this severance payment. In the event that Mr. Kay's employment is terminated as a result of a change of control, he is eligible to receive 150% of one year's base salary as a severance payment in lieu of any other severance payment to which he would otherwise be entitled. Mr. Kay's employment agreement also contains a customary provision regarding confidentiality following his termination of employment with us.

### ***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***

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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.

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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, or CalPERS; 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. Many of these rights will terminate as a result of the completion of the offering.

***Prior to Completion of the Offering***

Each of the following provisions apply prior to the completion of the offering but will terminate simultaneously with the completion of the offering:

*Designation of Directors and Board Observers.* The agreement provides that, prior to the offering, the parties to the agreement that own shares of our Class B common stock, which consist of the stockholders in the first six bullet points above, will vote all of the shares of our voting capital stock they own to elect to our board of directors individuals designated as follows:

five directors designated by our stockholders affiliated with Blum Capital Partners;

one director designated by our stockholders affiliated with Freeman Spogli;

Ray Wirta; and

Brett White.

In addition, the following stockholders are entitled to the following numbers of non-voting observers at each of the meetings of our board of directors prior to the completion of the offering:

for so long as our stockholders affiliated with Freeman Spogli collectively own at least 7.5% of our outstanding common stock, they are entitled to have two non-voting observers at meetings;

for so long as our stockholders that purchased their shares in connection with the 2001 offering of our 16% senior notes, collectively, own at least 1.0% of our outstanding common stock or a majority in principal amount of the 16% senior notes, they generally are entitled to have one observer at meetings; and

for so long as CalPERS owns any shares of our outstanding common stock, it is entitled to have one observer at meetings.

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*Voting and Transfer Restrictions.* Subject to limited exceptions, each of the parties to the agreement that owns shares of our Class B common stock agreed to vote all the shares of our voting capital stock it or he beneficially owns on matters to be decided by our stockholders in the same manner as our stockholders affiliated with Blum Capital Partners vote the shares that they beneficially own. As a result, prior to the completion of the offering, on most matters to be decided by our stockholders, our stockholders affiliated with Blum Capital Partners are able to control the outcome. The agreement also provides that the consent of our director designated by the stockholders affiliated with Freeman Spogli is required before we are able to take certain actions, including, subject to exceptions, incurring certain indebtedness, consummating certain acquisitions or dispositions and issuing stock or options to our employees.

Also prior to completion of the offering, the securityholders' agreement includes restrictions on transfers of shares by the stockholder parties to the agreement, as well as provisions regarding a right of first offer for potential sales and co-sales of shares and required sale rights applicable in connection with sale transactions involving our shares and participation rights regarding future issuances of our shares of common stock.

*Other Rights.* Prior to the offering, each of our stockholders that is a party to this agreement generally has the right to receive specified annual, quarterly and monthly financial information about us and is able to inspect our books, records and properties and to discuss our affairs, finances and accounts with our officers and independent auditor.

### ***After Completion of the Offering***

Each of the following provisions will apply after the completion of the offering, subject to termination pursuant to the terms of the securityholders' agreement:

*Nomination of Directors and Voting.* Following the completion of the offering, our stockholders affiliated with Blum Capital Partners will be 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 following the offering, our stockholders affiliated with Freeman Spogli will be 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 currently own shares of our Class B common stock, other than Mr. Malek, will be obligated to vote their shares after the offering in favor of the directors nominated by these affiliates of Blum Capital Partners and Freeman Spogli. Immediately after completion of the offering, these stockholders, collectively, will beneficially own approximately 55.9% 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***

Both before and after the offering, 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

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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.

### **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 March 31, 2004 and December 31, 2003, Mr. Wirta has 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 Employment Agreement.* Pursuant to the terms of Mr. Wirta's 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 employment agreement, we loaned Mr. Wirta \$3.0 million on that date. Mr. Wirta's shares will not be 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

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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 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 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 13,857 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 currently own 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 22,081,591 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 12,291,420 shares of our Class B common stock and CalPERS made a cash contribution of \$10.0 million in exchange for 1,732,102 shares of our Class A 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 177,542 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 73,616 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.





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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 acquire 364,884 shares of CB Richard Ellis Services common stock. These warrants will automatically be exercised on a cashless basis in connection with the completion of the offering. For additional information regarding these warrants, see the heading titled "Description of Capital Stock Warrants."

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 18,255,339 shares of our Class B common stock, CalPERS made a cash contribution to us of \$10.0 million in exchange for 1,732,102 shares of our Class A common stock, some of our stockholders affiliated with Credit Suisse First Boston LLC, or CSFB, made aggregate cash contributions to us of \$3,645,840 in exchange for an aggregate of 631,497 shares of our Class A common stock and Frederic V. Malek made a cash contribution to us of \$960,000 in exchange for 166,282 shares of our Class B common stock.

## **Debt Financing and Other Fees Paid to CSFB and its Affiliates**

Affiliates of CSFB beneficially own approximately 27.8% of our outstanding Class A common stock and 3.3% of our Class A common stock and Class B common stock combined, in each case as of April 30, 2004. In connection with our acquisition of Insignia in 2003, CSFB or certain of its affiliates received customary fees and reimbursement of expenses for (1) its role as administrative agent and collateral agent with respect to the amendment and restatement of our senior secured credit facilities in May 2003, (2) its role as lead book-running manager in connection with the May 2003 offering and initial purchase of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and (3) the performance of mergers and acquisitions advisory services. In connection with the acquisition of CB Richard Ellis Services in 2001, CSFB or certain of its affiliates also received customary fees and reimbursement of expenses for (a) its role as administrative agent and collateral agent with respect to our senior secured credit facilities in July 2001, (b) its role as lead book-running manager in connection with the June 2001 offering and initial purchase of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011 and (c) its role as initial purchaser of, and its commitment to purchase, our 16% senior notes due 2011. CSFB or certain of its affiliates also received customary fees and reimbursement of expenses for its role in the refinancing of our senior secured credit facilities both in October 2003 and in connection with the completion of the offering. In each case with respect to the services provided by CSFB and its affiliates, the fees received were in conformity with prevailing market rates for services of that nature.

## **Co-Investment with CalPERS**

California Public Employees Retirement System, or CalPERS, beneficially owns approximately 5.7% of our Class A common stock as of April 30, 2004. In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., entered into a joint venture with CalPERS. This

joint venture, Global Innovation Partners, 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.

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In connection with formation of the joint venture, CBRE Investors, CalPERS and some of our employees entered into an aggregate of \$526 million of capital commitments to Global Innovations Partners, of which CalPERS committed an aggregate of \$500 million.

**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 and Class B common stock beneficially owned, and the percentage ownership of our common stock, as of April 30, 2004 for the following persons:

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

each of our directors;

each of our executive officers; and

all of our directors and executive officers as a group.

All outstanding shares of Class B common stock will convert at a 1-for-1 ratio into shares of Class A common stock in connection with the completion of the offering. For additional information regarding our common stock, see the heading titled "Description of Capital Stock - Common Stock."

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 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 (1)		Shares to be Sold in the Offering (2)	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent (3)
<b>Greater than 5% Stockholders:</b>					
Blum Strategic Partners, L.P.					
Blum Strategic Partners II, L.P.					
Blum Strategic Partners II GmbH & Co. KG (4)(5)	40,705,941	67.2%	11,894,411	28,811,530	42.3%
FS Equity Partners III, L.P.					
FS Equity Partners International, L.P. (4)(6)	9,429,459	15.6	2,863,687	6,908,824	10.1
California Public Employees Retirement System (7)	3,464,203	5.7	1,012,252	2,451,951	3.6
DLJ Investment Partners II, L.P.					
DLJ Investment Partners, L.P.					
DLJIP II Holdings, L.P. (8)(9)	1,990,791	3.3	581,717	1,409,074	2.1

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<b>Executive Officers and Directors:</b>					
Ray Wirta (4)(10)	1,915,325	3.2		1,915,325	2.8
Brett White (4)(11)	390,141	*		390,141	*
Kenneth J. Kay (12)	34,365	*		34,365	*
Alan C. Froggatt					
Robert Blain					
Richard C. Blum (4)(5)	40,705,941	67.2	11,894,411	28,811,530	42.3
Jeffrey A. Cozad (4)(5)	40,705,941	67.2	11,894,411	28,811,530	42.3
Patrice Marie Daniels					
Bradford M. Freeman (4)(6)	9,429,459	15.6	2,863,687	6,908,824	10.1
Michael Kantor					
Frederic V. Malek	1,268,932	2.1	370,786	898,146	1.3
Jeffrey S. Pion (13)	16,121	*		16,121	*
Gary L. Wilson					
All directors and executive officers as a group	53,760,284	88.1	15,128,884	38,631,400	56.4
<b>Other Selling Stockholders:</b>					
Donald Koll (4) (14)	372,646	*	108,888	263,758	*
Stanfield Arbitrage CDO, Ltd.					
Stanfield CLO, Ltd.					
Stanfield/RMF Transatlantic CDO, Ltd. (15)	72,443	*	21,168	51,275	*
Provident Financial Group, Inc. (16)	14,489	*	4,234	10,255	*

(footnotes on following page)

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\* less than 1.0%

- (1) Our outstanding common stock as of April 30, 2004 includes 7,173,087 shares of our Class A common stock and 53,409,556 shares of our Class B common stock. All shares of outstanding common stock indicated as beneficially owned by Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG, FS Equity Partners III, L.P., FS Equity Partners International, L.P., Frederic V. Malek and Donald Koll are Class B common stock. Among the shares of outstanding common stock indicated as beneficially owned by Ray Wirta and Brett White, 1,542,510 of Mr. Wirta's shares are Class B common stock and 90,069 of Mr. White's shares are Class B common stock. All other shares of outstanding common stock are Class A common stock.
- (2) If the underwriters exercise in full their over-allotment option, the selling stockholders will sell 3,600,000 additional shares of Class A common stock, which sale is not reflected in the table above.
- (3) Percentage ownership is based on (a) the number of outstanding shares described in footnote (1) above, (b) the issuance and sale of 7,142,857 shares of Class A common stock by us in the offering and (c) the cashless exercise of warrants to acquire shares of our Class A common stock in connection with the offering, which will result in the issuance of an aggregate of 343,052 shares. The number of shares issued upon exercise of warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. All shares of outstanding common stock are Class A common stock.
- (4) 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 own shares of Class B common stock prior to the 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 38,289,578 shares of our Class A common stock after the offering.
- (5) Prior to the offering, consists of 18,624,926 shares of our Class B common stock owned by Blum Strategic Partners, L.P., 21,634,936 shares of our Class B common stock owned by Blum Strategic Partners II, L.P. and 446,079 shares of our Class B common stock owned by Blum Strategic Partners II GmbH & Co. KG. In connection with the offering, Blum Strategic Partners will sell 5,442,265 shares, Blum Strategic Partners II, L.P. will sell 6,321,800 shares and Blum Strategic Partners II GmbH & Co. KG will sell 130,346 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 own shares of Class B common stock prior to the offering.
- (6) Prior to the offering, consists of 9,085,768 shares of our Class B common stock held by FS Equity Partners III, L.P., or FSEP III, and 343,691 shares of our Class B common stock held by FS Equity Partners International, L.P., or FSEP International. In connection with the offering, FSEP III will sell 2,759,310 shares and FSEP International will sell 104,377 shares. Shares beneficially owned after the offering reflects the cashless exercise of warrants to acquire shares of our Class A common stock in connection with the offering, which will result in the issuance of 330,548 shares to FSEP III and 12,504 shares to FSEP International. This number of shares issued upon exercise of these warrants assumes an initial public

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offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. 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 own shares of Class B common stock prior to the offering.

- (7) 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.
- (8) The shares of Class A common stock beneficially owned by these entities comprise 27.8% of our outstanding Class A common stock and 3.3% of our Class A common stock and Class B common stock combined, in each case as of April 30, 2004.
- (9) The shares beneficially owned include 1,131,342 shares of Class A common stock owned by DLJ Investment Partners II, L.P., 502,761 shares of Class A common stock owned by DLJ Investment Partners, L.P. and 356,688 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, L.P. will sell 146,909 shares, DLJ Investment Partners II, L.P. will sell 330,582 shares and DLJIP II Holdings, L.P. will sell 104,226 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.
- (10) Includes 195,273 shares of Class A common stock subject to options that are exercisable or are exercisable within 60 days. As a result of the securityholders' agreement, Mr. Wirta shares voting power over 1,720,052 of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.

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- (11) Mr. White is co-trustee and, together with his wife Danielle, is the beneficiary of The White Family Trust, which owns 163,685 of the indicated shares. Includes 157,172 shares of Class A common stock subject to options that are exercisable or are 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 163,685 of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.
- (12) Includes 34,365 shares of Class A common stock subject to options that are exercisable or are exercisable within 60 days.
- (13) Includes 16,121 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.
- (14) All of the indicated shares are owned by The Koll Holding Company. Mr. Koll is the sole trustee of the Donald M. Koll Separate Property Trust, which wholly owns DKC Holdings, Inc., which itself wholly owns The Koll Holding Company. As a result of the securityholders' agreement, Mr. Koll shares voting power over all of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering. Mr. Koll's business address is 4343 Von Karman Avenue, Newport Beach, CA 92660.
- (15) The shares beneficially owned consist of 25,355 shares of Class A common stock owned by Stanfield Arbitrage CDO, Ltd., 25,355 shares of Class A common stock owned by Stanfield CLO, Ltd. and 21,733 shares of Class A common stock owned by Stanfield/RMF Transatlantic CDO, Ltd. In connection with the offering, Stanfield Arbitrage CDO, Ltd. will sell 7,409 shares, Stanfield CLO, Ltd. will sell 7,409 shares and Stanfield/RMF Transatlantic CDO, Ltd. will sell 6,350 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. 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) Provident Financial Group, Inc. owns 100% of a registered broker-dealer. Provident purchased 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 Provident Financial Group, Inc. is 1 East Fourth Street, Cincinnati, OH 45202.



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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.* Prior to the offering, we have a dual class common stock structure. We currently are authorized to issue an aggregate of 425,000,000 shares of common stock consisting of 325,000,000 shares of Class A common stock, \$0.01 par value per share, and 100,000,000 shares of Class B 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. Prior to the offering, we expect to amend our certificate of incorporation to effect a 1-for-1.0825 reverse stock split. Except with respect to voting as described below, the holders of Class A common stock and Class B common stock have the same rights. Pursuant to the automatic conversion provision described below, all outstanding shares of Class B common stock will convert at a 1-for-1 ratio into shares of Class A common stock in connection with the completion of the offering. As a result of this conversion and the automatic cashless exercise of warrants described below, after the completion of the offering, 68,068,552 shares of Class A common stock will be outstanding and no shares of Class B common stock will be outstanding. Immediately after the completion of the offering, we expect to amend and restate our certificate of incorporation to eliminate the authorized shares of Class B common stock. As a result, we do not expect to be able to issue shares of our Class B common stock after completion of the offering.

***Prior to Completion of the Offering***

*Voting Rights.* Each share of Class A common stock entitles the holder to one vote in all matters submitted to a vote of our stockholders. Each share of Class B common stock entitles the holder to ten votes in all matters submitted to a vote of stockholders. There is no cumulative voting. Except as required by applicable law, the holders of Class A common stock and the holders of Class B common stock vote together on all matters submitted to a vote of our stockholders. In the event that any amendment to the certificate of incorporation is proposed that would alter or change the powers, preferences or special rights of either class of our common stock so as to affect them adversely, we must obtain the approval of a majority of the votes entitled to be cast by the holders of the outstanding shares of the class affected by the proposed amendment. In addition, the number of authorized shares of Class A common stock or Class B common stock may be increased or decreased, but not below the number of shares then outstanding, by the affirmative vote of the holders of a majority in voting power of our outstanding shares of capital stock entitled to vote generally in the election of directors.

*Dividends.* Holders of Class A common stock and Class B common stock are entitled to receive ratably any dividends that may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event that a dividend or distribution is paid or distributed with respect to one class of common stock, a simultaneous dividend or distribution must be paid or distributed on the other class and in the same proportion. However, in the case of dividends or other distributions payable in common stock, only shares of Class A common stock would be paid or distributed with respect to Class A common stock and only shares of Class B common stock would be paid or distributed with respect to Class B common stock. We may not subdivide or combine shares of either class of our common stock without at the same time proportionally subdividing or combining shares of the other class.

*Changes in Capitalization.* In the event there is an increase or decrease in the number of issued shares of common stock resulting from any stock split, stock dividend, reverse stock split, combination or reclassification of our common stock, or any other similar event resulting in an

increase or decrease in the number of outstanding shares of common stock, the outstanding shares of Class A common stock and the outstanding shares of Class B common stock must be adjusted in the same manner.

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*Optional Conversion.* As long as shares of Class B common stock are outstanding, a holder of Class B common stock may at any time convert any shares of Class A common stock the holder owns, in whole or in part, on a share for share basis into the same number of shares of Class B common stock. A holder of Class B common stock may at any time convert any shares of Class B common stock it owns, in whole or in part, on a share for share basis into the same number of shares of Class A common stock. In the event of a transfer of shares of Class B common stock to any person or entity other than a permitted transferee, each share of Class B common stock so transferred will be converted automatically into one share of Class A common stock. For the purposes of a transfer of capital stock, the permitted transferees include affiliates of Blum Capital Partners, any person or entity that owned Class B common stock at the effective time of our acquisition of CB Richard Ellis Services and any single person or entity to which a current Class B common stock holder transfers its right to be a permitted holder and all of its Class B common stock.

*Automatic Conversion.* Each share of Class B common stock converts automatically into one share of Class A common stock upon completion of the offering.

*Mergers and Other Business Combinations.* Subject to the next sentence, unless otherwise approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of Class A common stock and the outstanding shares of Class B common stock, each voting separately as a class, all shares of Class A common stock and Class B common stock are entitled to receive equally on a per share basis the same kind and amount of consideration in the event of any merger, reorganization or consolidation of us with any company. In the event that one or more of the other corporations or entities that is a party to a merger or similar transaction with us deems it necessary for the merger to be treated as a recapitalization for financial accounting purposes and for us to no longer be subject to the reporting requirements of Section 14 of the Exchange Act after the closing date of the merger, then, solely to the extent deemed necessary by the other corporation or entity to satisfy these requirements, the kind of consideration that a holder of a share of Class A common stock would be entitled to receive may be different than the kind of consideration that a holder of a share of Class B common stock would be entitled to receive.

*Liquidation.* In the event of liquidation, dissolution or winding up, the holders of Class A common stock and Class B common stock are entitled to share ratably in all assets remaining after the payment of liabilities.

### ***After Completion of the Offering***

*Voting Rights.* Holders of our Class A common stock generally will be entitled to one vote per share on all matters on which our stockholders are entitled to vote. The holders of Class A common stock will not have cumulative voting rights in the election of directors.

*Dividends.* Holders of our Class A common stock will be 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 will be 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 will not have preemptive or conversion rights and will not be subject to further calls or assessment by us. There will be no redemption or sinking fund provisions applicable to our Class A common stock.

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### **Preferred Stock**

In our restated certificate of incorporation that we expect to file prior to completion of the offering, our board of directors will be 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.

### **Warrants**

In connection with our acquisition of CB Richard Ellis Services in 2001, we issued to our stockholders affiliated with Freeman Spogli a warrant to acquire, subject to customary anti-dilution provisions, 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 CB Richard Ellis Services common stock. These warrants may be exercised at the option of the holders on August 26 and 27, 2007 either by delivery of the exercise price in cash or by a cashless exercise. These warrants are exercised automatically on a cashless basis in connection with specified triggering events, one of which is the completion of an underwritten initial public offering of our common stock that results in our common stock being listed on either the New York Stock Exchange or the Nasdaq National Market. In connection with any cashless exercise, instead of payment of the exercise price in cash, the stockholders affiliated with Freeman Spogli surrender their warrant certificates and receive a net amount of shares of our common stock based on the fair market value of our common stock at the time of the exercise of the warrants, after deducting the aggregate exercise price. Accordingly, in connection with the completion of the offering, these warrants will automatically be exercised and we will issue an aggregate of 343,052 shares to our stockholders affiliated with Freeman Spogli. This number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

### **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.

*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 35,720,354 shares of our common stock. 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

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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 504,463 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" (1) prior to an initial public offering of our common stock may be determined by our board of directors in good faith and (2) after an 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.

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.





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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.

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.

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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.

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**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**

Prior to this offering, there was no market for our common stock. 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**

Upon completion of the offering, we will have 68,068,552 shares of common stock outstanding, based upon the total number of outstanding shares of our Class A common stock and Class B common stock as of April 30, 2004. In addition, as of April 30, 2004, 10,017,071 shares of common stock were issuable upon the exercise of outstanding stock options or in connection with distributions pursuant to our deferred compensation plan. Of the outstanding shares after completion of the offering, all of the 24,000,000 shares sold in the offering and 1,103,659 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. The remaining outstanding shares of our common stock after completion of the offering will be deemed restricted securities, as that term is defined under Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 under the Securities Act, which rules are described below. Although the shares held by our current and former employees and consultants currently are subject to transfer restriction agreements with us, we expect to waive some or all of these contractual restrictions prior to the completion of the offering and, in the event of such waivers, such stockholders will be able to sell their shares after the offering, in each case subject to any lock-up agreements with the underwriters described below and subject to such shares being registered under the Securities Act or otherwise being sold pursuant to Rules 144, 144(k) or 701 under the Securities Act.

The restricted shares and the shares held by our affiliates will be available for sale in the public market as follows:

66,715 shares will be eligible for immediate sale on the date of this prospectus because such shares may be sold pursuant to Rule 144(k);

209,629 shares will be eligible for sale at various times beginning 90 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701; and

42,688,549 shares subject to the lock-up agreements will be eligible for sale at various time beginning 180 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701.

***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 will be approximately 0.7 million shares immediately after completion of the offering; 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.

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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.

### ***Rule 701***

Certain of our current and former employees and consultants who acquired their shares in connection with awards pursuant to our 2001 stock incentive plan, which is a written compensatory plan, are entitled to rely on the resale provisions of Rule 701 under the Securities Act. Under Rule 701, these stockholders, whether or not they are our affiliates, are permitted to sell the shares subject to Rule 701 without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the date of this prospectus. In addition, non-affiliates may sell their Rule 701 shares without complying with the volume, notice or public information requirements of Rule 144 described above.

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

We intend to file registration statements on Form S-8 under the Securities Act of 1933 to register shares of common stock issuable under our 2001 stock incentive plan, our deferred compensation plan and our 2004 stock incentive plan. These registration statements are expected to be filed shortly after the date of this prospectus and will be effective upon filing. As a result, after the effective date of these Form S-8 registration statements, 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 deferred compensation plan will be eligible for resale in the public market without restriction, subject to Rule 144 limitations applicable to affiliates described above and the lock-up agreements described below.

As of April 30, 2004:

6,887,701 shares of common stock were reserved pursuant to our 2001 stock incentive plan for future issuance in connection with the exercise of outstanding options previously awarded under this plan, and options with respect to 1,601,448 of shares had vested;

6,928,406 shares of common stock were reserved for future issuance pursuant to our 2004 stock incentive plan, none of which have been awarded under this plan; and

3,129,370 shares of common stock were underlying stock fund units under our deferred compensation plan and are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants, with 1,948,215 shares underlying stock fund units that are no longer subject to any vesting requirements under the plan.

With respect to the foregoing, the parties who have signed lock-up agreements with the underwriters held options to acquire 1,770,721 shares of our common stock, of which 386,810 had vested, and stock fund units with 97,876 underlying shares, of which 85,405 had vested.

In addition to the vested options as of April 30, 2004, additional options to purchase approximately 1.3 million shares of common stock will vest on or prior to September 16, 2004.

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As permitted by its terms, we expect to terminate our deferred compensation plan shortly after the offering is completed and adopt a new deferred compensation plan. With respect to existing deferrals in stock fund units under the plan, we expect that substantially all of the shares of common stock underlying such units will be distributed to participants in distributions initiated by us during October of 2004.

## **Lock-Up Agreements**

For a description of the lock-up agreements with the underwriters that restrict sales of shares by us, our directors and executive officers and certain of our other employees and 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 9¾% senior notes on May 22, 2003 to permit the issuance of the 9¾% 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 current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provides for the amendment and restatement of our credit agreement upon the completion of the offering. CB Richard Ellis Services senior secured credit facilities, as set forth in our new amended and restated credit agreement, will consist of a \$295.0 million term loan facility and a \$90.0 million revolving credit facility. We expect that the new amended and restated credit agreement also will include an incremental revolving facility of \$60.0 million. Our new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, 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 new amended and restated credit agreement, the term loan facility will mature on March 31, 2010 and will amortize in equal quarterly installments of \$2.95 million through December 31, 2009, with the balance payable on the maturity date. The \$90.0 million revolving credit facility will terminate on July 20, 2007. However, in connection with the \$60.0 million incremental revolving credit facility that we expect to implement (which we expect would terminate on March 31, 2009), we have requested that the lenders under the \$90.0 million revolving credit facility agree to extend its termination date to March 31, 2010. 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 new amended and restated credit agreement, borrowings under the senior secured credit facilities will bear interest at the following rates:

Term loan facility at CB Richard Ellis Services option, either LIBOR plus 2.25% to 2.50% or the alternate base rate, as defined below, plus 1.25% to 1.50%, in each case as determined by reference to the credit rating assigned to such facility by Moody's Investors Service and Standard and Poor's;

\$90.0 million revolving credit facility at CB Richard Ellis Services option, either LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, 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;

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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; and

\$60.0 million incremental revolving credit facility at CB Richard Ellis Services option, either LIBOR plus 2.00% to 2.50% or the alternative base rate plus 1.00% to 1.50%, in each case as determined by references to our ratio of total debt less available cash to EBITDA.

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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, including the \$60.0 million incremental 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. The new amended and restated credit agreement, among other things, generally will amend the restrictive covenant regarding prepayment, redemption and repurchase of debt to permit us to use the net proceeds we receive from the offering in the manner described in this prospectus, including the redemption of \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010 and the prepayment of \$19.9 million in principal amount of our term loan.

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 plus expense associated with dividends paid to us to pay amounts due under the 16% senior notes due 2011; and EBITDA less capital expenditures and co-investments to interest expense plus expense associated with dividends paid to us to pay amounts due under the 16% senior notes due 2011.

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 9¾% Senior Notes Due 2010**

On May 22, 2003, CBRE Escrow, Inc. issued \$200.0 million in aggregate principal amount of 9¾% 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 9¾% senior notes, and we and substantially all of our domestic subsidiaries guaranteed the 9¾% senior notes. CB Richard Ellis Services 9¾% 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 9¾% 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 9¾% 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 9¾% senior notes. We may at any time, and from time to time,

purchase our 9¾% senior notes in the open

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market or otherwise. We and certain of our subsidiaries guaranteed our 9¾% 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.

Until May 15, 2006, our 9¾% senior notes may be redeemed on one or more occasions in an amount not to exceed 35% of the principal amount of all issued 9¾% senior notes at a redemption price of 109¾%, 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 9¾% senior notes, including any additional 9¾% 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 9¾% senior notes; and

the 9¾% senior notes are redeemed within 90 days after the completion of the related equity offering.

Pursuant to this provision of the indenture, we expect to use a portion of the net proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, which also will require 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 9¾% 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 9¾% senior notes, we will be obligated to make an offer to purchase all outstanding 9¾% senior notes at a redemption price of 101% of the principal amount plus accrued interest, subject to certain conditions.

The indenture governing our 9¾% 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.

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This summary of the material provisions of our 9¾% senior notes is qualified in its entirety by reference to all of the provisions of the indenture governing our 9¾% senior notes, which is filed as an exhibit to the registration statement of which this prospectus is a part.

### **CB Richard Ellis Services 11¼% Senior Subordinated Notes Due 2011**

On June 7, 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% 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 11¼% senior subordinated notes and we and substantially all of our domestic subsidiaries guaranteed the 11¼% senior subordinated notes. CB Richard Ellis Services 11¼% senior subordinated notes are our unsecured senior subordinated obligations and rank equally in right of payment

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with any of our existing and future senior subordinated unsecured indebtedness but are subordinated to any of our existing and future senior indebtedness. The 11¼% 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.

Interest accrues at a rate of 11¼% 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 11¼% senior subordinated notes. We may at any time and from time to time purchase our 11¼% senior subordinated notes in the open market or otherwise. We and substantially all of our domestic subsidiaries guaranteed the 11¼% 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.

Until June 15, 2004, our 11¼% senior subordinated notes may be redeemed on one or more occasions in an amount not to exceed 35% of the principal amount of all issued 11¼% senior subordinated notes at a redemption price of 111¼%, 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 the 11¼% senior subordinated notes, including any additional 11¼% senior subordinated 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 11¼% senior subordinated notes; and

the 11¼% senior subordinated notes are redeemed within 90 days after the completion of the related equity offering.

On and after June 15, 2006, all or a portion of our 11¼% 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 11¼% senior subordinated notes, we will be obligated to make an offer to purchase all outstanding 11¼% senior subordinated notes at a redemption price of 101% of the principal amount plus accrued interest.

The indenture governing our 11¼% 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 9¾% senior notes.

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In May 2004, we purchased \$20.1 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 \$2.9 million of premiums in connection with such purchases.

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



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In connection with our acquisition of CB Richard Ellis Services in 2001, we issued an aggregate of 65,000 units, which consisted in the aggregate of \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011 and 339,820 shares of our Class A common stock. The 16% senior notes are unsecured obligations, senior to all of our existing and future unsecured indebtedness but effectively subordinated to all of our existing and future indebtedness. The net proceeds from the units were contributed by us to CB Richard Ellis Services as equity. The 16% senior notes are governed by an indenture between us and U.S. Bank National Association (as successor to State Street Bank and Trust Company of California, N.A.), as trustee, and will mature on July 20, 2011. 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. We paid \$2.9 million of premiums in connection with these redemptions. We expect to use the net proceeds that we receive from the offering to redeem all of the remaining outstanding principal amount of the 16% senior notes, which also will require payment of a \$3.7 million premium and accrued and unpaid interest through the date of redemption.

Interest accrues on the 16% senior notes at a rate of 16% per year and is payable quarterly in cash in arrears. However, until the fifth anniversary of the issuance of the 16% senior notes, interest in excess of 12% for the 16% senior notes may be paid in kind and, at any time, interest may be paid in kind to the extent that CB Richard Ellis Services' ability to pay cash dividends to us is restricted by the terms of the senior secured credit facilities, which are described above. There are no mandatory sinking fund payments for the 16% senior notes.

The 16% senior notes are redeemable at our option, in whole at any time or in part from time to time 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, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing July 20 of the years below:

<u>Year</u>	<u>Percentage</u>
2003	109.6%
2004	106.4
2005	103.2
2006 and thereafter	100.0

In the event of a change of control, which is defined in the indenture governing the 16% senior notes, we are obligated to make an offer to purchase all outstanding 16% senior notes at a purchase price equal to 101% of the principal amount of the 16% senior notes, plus accrued and unpaid interest, subject to various conditions.

The indenture governing our 16% senior notes contains customary restrictive covenants for high yield securities, which covenants are substantially the same as the covenants in the indenture governing our 9¾% senior notes.

This summary of the material provisions of our 16% senior notes is qualified in its entirety by reference to all of the provisions of the indenture governing the 16% senior notes, which is filed as an exhibit to the registration statement of which this prospectus forms 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, foreign personal holding companies, corporations that accumulate earnings to avoid U.S. federal income tax, and investors in pass-through entities that are subject to special treatment under the Internal Revenue Code of 1986, which we refer to as 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.

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, we and 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.	
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
Bear, Stearns & Co. Inc.	
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
<b>Total</b>	<b>24,000,000</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.

The selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 3,600,000 additional outstanding shares from them at the initial public 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 public 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 initial public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

<u>Per Share</u>		<u>Total</u>	
Without	With	Without	With
Over-allotment	Over-allotment	Over-allotment	Over-allotment

Underwriting discounts and commissions paid by us	\$	\$	\$	\$
Expenses payable by us	\$	\$	\$	\$
Underwriting discounts and commissions paid by the selling stockholders	\$	\$	\$	\$
Expenses payable by the selling stockholders.	\$	\$	\$	\$

Because Credit Suisse First Boston LLC is an underwriter and its affiliates may receive more than 10% of the entire net proceeds in this offering, they may be deemed to have a conflict of interest under Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 2720 of the Conduct Rules. Rule 2720 requires that the initial public offering price can be no higher than that recommended by a qualified independent underwriter, as defined by the National Association of Securities Dealers, Inc. Citigroup Global Markets Inc. has served in that capacity and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part.



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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 180 days after the date of this prospectus, subject to specified exemptions.

Our directors, executive officers and certain of our other employees and stockholders, which together will beneficially own approximately 63.0% of our outstanding Class A common stock and Class B 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 180 days after the date of this prospectus.

We have applied to list the shares of common stock on the New York Stock Exchange under the symbol CBG. In order to meet one of the requirements for the listing of the common stock on the NYSE, the underwriters will undertake to sell lots of 100 or more shares to a minimum of 2,000 beneficial owners.

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.

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 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. Affiliates of Credit Suisse First Boston LLC also are the lenders with respect to 3.71% of the terms loan under our amended and restated credit agreement. We expect to use a portion of the net proceeds we receive from the offering to prepay \$19.9 million in principal amount of the term loan. In addition, as of April 30, 2004, affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,990,792 shares, or approximately 3.3%, 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 2.1% 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. As of April 30, 2004, these affiliates of Credit Suisse First Boston LLC also owned approximately \$34.8 million in aggregate principal amount of our 16% senior notes due 2011, all of which we expect to redeem with the net proceeds we receive from the offering.

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.

L.J. Melody & Company, our wholly owned subsidiary, has a credit agreement with JP Morgan Chase, an affiliate of J.P. Morgan Securities Inc., that provides for a revolving line of credit of up to \$20.0 million and expires on May 28, 2004.

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Prior to the offering, there has been no market for our common stock. The initial public offering price will be determined by negotiation among us, the selling stockholders and the underwriters and will not necessarily

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reflect the market price of the common stock following the offering. The principal factors that will be considered in determining the public offering price will include:

the information presented in this prospectus and otherwise available to the underwriters;

the history of and the prospects for the industry in which we will compete;

the ability of our management;

the prospects for our future earnings;

the present state of our development and our current financial condition;

the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and

the general condition of the securities markets at the time of the offering.

We offer no assurances that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to this offering or that an active trading market for the common stock will develop and continue after the offering.

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.

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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.

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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 us and 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, independent auditors, 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 auditors, 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.

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**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.

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 currently file reports and other information with the SEC as a result of requirements under the indentures governing our 9¾% senior notes due 2010, our 11¼% senior subordinated notes due 2011 and our 16% senior notes due 2011. The registration statements and other reports or 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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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except share data)****(Unaudited)**

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 54,254	\$ 163,881
Restricted cash	15,165	14,899
Receivables, less allowance for doubtful accounts of \$16,408 and \$16,181 at March 31, 2004 and December 31, 2003, respectively	272,574	322,416
Warehouse receivable	72,725	230,790
Prepaid expenses	28,899	22,854
Deferred tax assets, net	65,438	57,681
Other current assets	33,705	26,461
<b>Total Current Assets</b>	<b>542,760</b>	<b>838,982</b>
Property and equipment, net	117,340	113,569
Goodwill	825,679	819,558
Other intangible assets, net of accumulated amortization of \$82,362 and \$73,449 at March 31, 2004 and December 31, 2003, respectively	123,694	131,731
Deferred compensation assets	81,111	76,389
Investments in and advances to unconsolidated subsidiaries	73,354	68,361
Deferred tax assets, net	30,216	32,179
Other assets, net	125,581	132,712
<b>Total Assets</b>	<b>\$ 1,919,735</b>	<b>\$ 2,213,481</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 188,725	\$ 189,787
Compensation and employee benefits payable	143,997	148,874
Accrued bonus and profit sharing	83,161	200,343
Short-term borrowings:		
Warehouse line of credit	72,725	230,790
Revolver and swingline credit facility	13,250	
Other	27,846	39,347
<b>Total short-term borrowings</b>	<b>113,821</b>	<b>270,137</b>
Current maturities of long-term debt	11,252	11,285
Other current liabilities	12,642	12,991
<b>Total Current Liabilities</b>	<b>553,598</b>	<b>833,417</b>
Long-Term Debt:		
11¼% senior subordinated notes, net of unamortized discount of \$2,764 and \$2,827 at March 31, 2004 and December 31, 2003, respectively	226,236	226,173
Senior secured term loan	285,000	287,500
9¾% senior notes	200,000	200,000
	35,756	35,472

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16% senior notes, net of unamortized discount of \$2,560 and \$2,844 at March 31, 2004 and December 31, 2003, respectively

Other long-term debt	43,500	42,275
	<hr/>	<hr/>
Total Long-Term Debt	790,492	791,420
Deferred compensation liability	144,996	138,037
Pension liability	38,917	35,998
Other liabilities	72,712	75,024
	<hr/>	<hr/>
Total Liabilities	1,600,715	1,873,896
Minority interest	6,860	6,656
Commitments and contingencies		
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 7,578,976 and 7,561,499 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively	76	76
Class B common stock; \$0.01 par value; 100,000,000 shares authorized; 53,409,556 shares issued and outstanding at March 31, 2004 and December 31, 2003	534	534
Additional paid-in capital	361,636	361,522
Notes receivable from sale of stock	(4,388)	(4,680)
Accumulated (deficit) earnings	(15,119)	1,449
Accumulated other comprehensive loss	(28,267)	(23,780)
Treasury stock at cost, 405,888 and 385,103 shares at March 31, 2004 and December 31, 2003, respectively	(2,312)	(2,192)
	<hr/>	<hr/>
Total Stockholders' Equity	312,160	332,929
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 1,919,735	\$ 2,213,481
	<hr/>	<hr/>

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenue	\$ 440,992	\$ 263,724
Costs and expenses:		
Cost of services	224,222	123,599
Operating, administrative and other	199,251	126,175
Depreciation and amortization	16,831	6,171
Merger-related charges	9,960	
Operating (loss) income	(9,272)	7,779
Equity income from unconsolidated subsidiaries	2,526	3,063
Interest income	2,307	1,075
Interest expense	20,679	14,324
Loss before benefit for income taxes	(25,118)	(2,407)
Benefit for income taxes	(8,550)	(1,060)
Net loss	\$ (16,568)	\$ (1,347)
Basic and diluted loss per share	\$ (0.26)	\$ (0.03)
Weighted average shares outstanding for basic and diluted loss per share	62,522,176	41,651,415

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****(Unaudited)****(Dollars in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (16,568)	\$ (1,347)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	16,831	6,171
Amortization of deferred financing costs	1,662	824
Deferred compensation deferrals	4,863	2,111
Gain on sale of servicing rights and other assets	(518)	(809)
Equity income from unconsolidated subsidiaries	(2,526)	(3,063)
Provision for doubtful accounts	929	152
Deferred income tax benefit	(8,508)	(772)
Decrease in receivables	46,988	21,169
(Increase) decrease in deferred compensation assets	(4,722)	246
Decrease (increase) in prepaid expenses and other assets	28	(2,365)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(120,613)	(77,994)
(Decrease) increase in accounts payable and accrued expenses	(2,721)	1,112
Decrease in income taxes payable	(4,414)	(15,728)
Increase (decrease) in other liabilities	502	(742)
Other operating activities, net	1,420	274
Net cash used in operating activities	(87,367)	(70,761)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net of concessions received	(10,406)	(4,000)
Acquisition of businesses including net assets acquired, intangibles and goodwill	(7,069)	(22)
Other investing activities, net	(1,623)	1,528
Net cash used in investing activities	(19,098)	(2,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolver and swingline credit facility	47,500	33,750
Repayment of revolver and swingline credit facility	(34,250)	(20,250)
Repayment of senior secured term loan	(2,500)	(2,338)
(Repayment of) proceeds from euro cash pool and other loans, net	(12,802)	68
Other financing activities, net	(151)	526
Net cash (used in) provided by financing activities	(2,203)	11,756
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(108,668)</b>	<b>(61,499)</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>163,881</b>	<b>79,701</b>

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Effect of currency exchange rate changes on cash	(959)	1,168
	<u>          </u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 54,254</b>	<b>\$ 19,370</b>
	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 5,882	\$ 5,823
	<u>          </u>	<u>          </u>
Income taxes, net of refunds	\$ 3,529	\$ 14,532
	<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. a Delaware corporation, offers 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.

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. 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.

The aggregate preliminary purchase price for the acquisition of Insignia was approximately \$328.6 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) \$14.6 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.

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

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certain assets is still preliminary. Additionally, adjustment to the estimated liabilities assumed in connection with the Insignia Acquisition may still be required. During the three months ended March 31, 2004, we assigned a \$6.6 million estimated fair value to the 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 we will amortize it on a straight-line basis during that period. The

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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 \$1.4 million increase in net loss during the three months ended March 31, 2004. Additionally, during the three months ended March 31, 2004, we made adjustments to the liabilities assumed in connection with the Insignia Acquisition, primarily related to severance and exit costs, as well as minor adjustments in the valuation of other net assets acquired, which more than offset the decrease to goodwill associated with the broker draw asset.

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, the Company has 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):

	<b>2003</b>		<b>2004</b>		<b>To be</b>
	<b>Charge To</b>		<b>Adjustments</b>	<b>Utilized</b>	<b>Utilized</b>
	<b>Goodwill</b>			<b>To Date</b>	
	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>
Severance	\$ 30,706	\$ 162		\$ (14,762)	\$ 16,106
Lease termination costs	28,922	2,969		(5,102)	26,789
Change of control payments	10,451			(10,451)	
Costs associated with exiting contracts	8,921	1,997		(9,723)	1,195
Legal settlements anticipated	8,739	(139)		(3,032)	5,568
	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>
	<b>\$ 87,739</b>	<b>\$ 4,989</b>		<b>\$ (43,070)</b>	<b>\$ 49,658</b>
	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>

**3. Basis of Presentation**

The consolidated statements of operations and cash flows for the three months ended March 31, 2004 include a full quarter of activity for Insignia. However, the consolidated statement of operations and cash flows for the three months ended March 31, 2003 do not include any activity of Insignia, as the Insignia Acquisition occurred on July 23, 2003. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our financial statements prior to the Insignia Acquisition.

Pro forma results for the three months ended March 31, 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):

	<b>Three Months</b> <b>Ended</b> <b>March 31,</b> <b>2003</b>
Revenue	\$ 393,624
Operating loss	(39,078)
Net loss	(31,751)
Basic and diluted loss per share	(0.51)

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form S-1 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 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 months ended March 31, 2004 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2004.

**4. 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.

**5. Stock-Based Compensation**

Prior to the fourth quarter of 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*.

In 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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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 was not freely tradable on a national securities exchange or an over-the-counter market during the periods presented in these financial statements, 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.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table illustrates the effect on net loss and loss 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):

	Three Months Ended March 31,	
	2004	2003
Net loss as reported	\$ (16,568)	\$ (1,347)
Add: Stock-based employee compensation expense included in reported net loss, net of the related tax effect	53	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of the related tax effect	(197)	(148)
Pro forma net loss	\$ (16,712)	\$ (1,495)
Basic and Diluted Loss per Share:		
As Reported	\$ (0.26)	\$ (0.03)
Pro Forma	\$ (0.27)	\$ (0.04)

The weighted average minimum value of options granted by us was \$0.60 and \$0.58 for the three months ended March 31, 2004 and 2003, respectively. The minimum value of each option grant is estimated on the date of grant utilizing the following weighted average assumptions:

	Three Months Ended March 31,	
	2004	2003
Risk-free interest rate	3.08%	3.04%
Expected life	5 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 minimum value estimate, we do not believe that the minimum value model necessarily provides a reliable single measure of the minimum value of our employee stock options.

**6. Restricted Cash**

Included in the accompanying consolidated balance sheet as of March 31, 2004 and December 31, 2003, is restricted cash of \$15.2 million and \$14.9 million, respectively, which primarily consists of cash pledged to secure the guarantee of notes issued in connection with previous acquisitions by Insignia in the United Kingdom (UK). The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 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	5,838	344	(61)	6,121
Balance at March 31, 2004	<u>\$ 604,277</u>	<u>\$ 217,450</u>	<u>\$ 3,952</u>	<u>\$ 825,679</u>

Other intangible assets totaled \$123.7 million and \$131.7 million, net of accumulated amortization of \$82.4 million and \$73.4 million, as of March 31, 2004 and December 31, 2003, respectively, and are comprised of the following (dollars in thousands):

	<u>As of March 31, 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	
Tradename	19,826		19,826	
Total	<u>\$ 83,526</u>		<u>\$ 83,526</u>	
<b>Amortizable intangible assets</b>				
Backlog	\$ 72,503	\$ (65,925)	\$ 72,503	\$ (59,108)
Management contracts	26,033	(10,879)	25,649	(9,708)
Loan servicing rights	18,186	(4,272)	17,694	(3,812)
Other	5,808	(1,286)	5,808	(821)
Total	<u>\$ 122,530</u>	<u>\$ (82,362)</u>	<u>\$ 121,654</u>	<u>\$ (73,449)</u>

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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 UK 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 United States (US), the UK, France and other European operations, as well as valuation services and fund management contracts in the UK. 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 US, 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 US 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 \$8.6 million and \$1.0 million for the three months ended March 31, 2004 and 2003, respectively. The estimated amortization expense for the five years ending December 31, 2008 approximates \$20.4 million, \$6.5 million, \$4.9 million, \$4.4 million and \$3.2 million, respectively.

**8. 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>March 31, 2004</b>	<b>December 31, 2003</b>
	<u>          </u>	<u>          </u>
Current assets	\$ 201,222	\$ 208,743
Non current assets	2,171,077	2,040,138
Current liabilities	198,149	154,778
Non current liabilities	1,016,541	969,993
Minority interest	4,735	4,600

Condensed Statements of Operations Information:

**Three Months Ended March 31,**

	<u>2004</u>	<u>2003</u>
Net revenue	\$ 120,579	\$ 99,031
Operating income	23,888	23,604
Net income	34,184	21,077

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 professional services to these equity investees.

## 9. Debt

In order to partially fund the 2001 Merger, we entered into a credit agreement with Credit Suisse First Boston (CSFB) and other lenders and borrowed \$235.0 million of term loans on July 20, 2001. To partially fund the Insignia Acquisition in 2003, we amended and restated this credit agreement and borrowed an aggregate of an additional \$75.0 million of term loans on July 23, 2003. On October 14, 2003, we refinanced all of the outstanding loans under our amended and restated credit agreement. As part of this refinancing, we entered into a

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

new amended and restated credit agreement. The prior credit facilities were, and the current amended and restated credit facilities, continue to be, 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 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.

The existing amended and restated credit agreement includes the following: (1) a term loan facility of \$300.0 million, which requires quarterly principal payments of \$2.5 million through September 30, 2008 and matures on December 31, 2008; and (2) a \$90.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. The revolving credit facility 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 at December 31, 2003 we had no revolving line of credit principal outstanding. As of March 31, 2004, we had \$13.3 million of revolving line of credit principal outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheet.

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 3.25% or the alternate base rate plus 2.25%. 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. Borrowings under the revolving credit facility bear interest at varying rates based on our option, on 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 are defined in the amended and restated credit agreement. The total amount outstanding under the term loan facility included in senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$295.0 million and \$297.5 million as of March 31, 2004 and December 31, 2003, 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 9¾% 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 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 9¾% senior notes. The 9¾% 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 9¾% 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 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% 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 9¾% senior notes at 109¾% 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 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was \$200.0 million as of March 31, 2004 and December 31, 2003.

In order to partially finance the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11¼% 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 11¼% senior subordinated notes in connection with the 2001 Merger. The 11¼% senior subordinated notes are jointly and severally guaranteed on a

senior

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% 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 111¼% 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 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$226.2 million as of March 31, 2004 and December 31, 2003.

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 16.0% 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 the interest in excess of 12.0%, that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003. In the event of a change in control, we are obligated to make an offer to purchase all of our outstanding 16% senior notes at 101.0% of par. In addition, under the terms of the indenture governing the 16% senior notes, the 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. However, the restricted payments covenant in our amended and restated credit agreement prevents us from purchasing or redeeming the 16% senior notes unless the purchase or redemption falls within the specified exceptions to the covenant. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes pursuant to these exceptions. We paid \$2.9 million of premiums in connection with these redemptions. The amount of the 16% senior notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$35.8 million and \$35.5 million as of March 31, 2004 and December 31, 2003, respectively.

Our amended and restated credit agreement and the indentures governing our 16% senior notes, our 9¾% senior notes and our 11¼% 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 to funded debt.

During 2001, a joint venture that we consolidate incurred \$37.2 million of non-recourse debt to acquire a real estate investment in Japan. The debt is secured by a mortgage on the acquired real estate asset. In our accompanying consolidated balance sheets, this debt comprised \$42.6 million and \$41.8 million of our other long-term debt as of March 31, 2004 and December 31, 2003, respectively. 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. As of March 31, 2004 and December 31, 2003, \$2.0 million of this non-recourse debt is included in short-term borrowings in the accompanying consolidated balance sheets.

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We had short-term borrowings of \$113.8 million and \$270.1 million with related average interest rates of 2.8% and 2.7% as of March 31, 2004 and December 31, 2003, respectively.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

Our wholly owned subsidiary, L.J. Melody & Company (L.J. Melody), has a credit agreement with Residential Funding Corporation (RFC) for the purpose of funding mortgage loans that will be resold. 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 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, which expires on August 31, 2004.

During the quarter ended March 31, 2004, we had a maximum of \$230.8 million revolving line of credit principal outstanding with RFC. At March 31, 2004 and December 31, 2003 we had a \$72.7 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 a \$72.7 million and a \$230.8 million warehouse receivable representing mortgage loans funded through the line of credit that had not been purchased as of March 31, 2004 and December 31, 2003, respectively, which are also included in the accompanying consolidated balance sheets.

L.J. Melody also 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. L.J. Melody uses this credit line from time to time to fund short-term investments in governmental and quasi-governmental instruments. Any such investments acquired by L.J. Melody are pledged as collateral for outstanding borrowings under the credit line. At March 31, 2004 and December 31, 2003, no amounts were outstanding under this line of credit.

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 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 March 31, 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. 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 March 31, 2004 and December 31, 2003, \$12.6 million and \$12.2 million of the acquisition loan notes were outstanding, respectively, which 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 the bank plus 2.5%. At March 31, 2004, there were no

amounts

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

outstanding under the Euro cash pool loan. The amount of the Euro cash pool loan included in short-term borrowings in the accompanying consolidated balance sheet was \$11.5 million as of December 31, 2003.

**10. 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 March 31, 2004, 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.

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 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 \$24.3 million as of March 31, 2004, excluding letters of credit related to our outstanding indebtedness. Approximately \$12.6 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 \$10.7 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 at any one time and these outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The remaining outstanding letter of credit which is for the Fannie Mae letter of credit described above, was issued pursuant to a credit agreement with Wells Fargo Bank. Under this agreement, we may issue up to a maximum of \$8.0 million of letters of credit, and these outstanding letters of credit are

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secured by the same assets of ours that secure our amended and restated credit agreement. The outstanding letters of credit as of March 31, 2004 expire at varying dates through March 31, 2005. However, we are obligated to renew the letters of credit related to certain office leases until as late as 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.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

We had guarantees totaling \$9.0 million as of March 31, 2004, 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 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. Renewals, modifications and extensions of such loan may be made without our consent, but the \$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.

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 March 31, 2004 we had committed \$22.6 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.

**11. Comprehensive Loss**

Comprehensive loss consists of net loss and other comprehensive (loss) income. Accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-US subsidiaries are deemed to be reinvested for an indefinite period of time.

The following table provides a summary of comprehensive loss (dollars in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net loss	\$ (16,568)	\$ (1,347)
Foreign currency translation (loss) gain	(4,487)	121
<b>Comprehensive loss</b>	<b>\$ (21,055)</b>	<b>\$ (1,226)</b>

**12. Per Share Information**

For the three months ended March 31, 2004 and 2003, our basic and diluted loss per share was computed by dividing the net loss by the weighted average number of common shares outstanding of 62,522,176 and 41,651,415, respectively. As a result of operating losses incurred, diluted weighted average shares outstanding did not give effect to potential common shares, as to do so would have been anti-dilutive.

### **13. Fiduciary Funds**

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which amounted to \$640.8 million and \$626.3 million at March 31, 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)****14. Pensions**

Net periodic pension cost consisted of the following (dollars in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Service cost	\$ 1,660	\$ 1,419
Interest cost	2,837	1,392
Expected return on plan assets	(3,184)	(1,587)
Amortization of prior service costs	(53)	
Amortization of unrecognized net gain	421	497
	<u>          </u>	<u>          </u>
Net periodic pension cost	<u>\$ 1,681</u>	<u>\$ 1,721</u>

We contributed an additional \$1.0 million to fund our pension plan during the three months ended March 31, 2004. We expect to contribute a total of \$4.4 million to fund our pension plan for the year ended December 31, 2004.

**15. Merger-Related Charges**

We recorded merger-related charges of \$10.0 million for the three months ended March 31, 2004 in connection with the Insignia Acquisition. The charges consisted of the following (dollars in thousands):

	<b>2003</b>	<b>2004</b>	<b>Utilized</b>	<b>To be</b>
	<b>Charge</b>	<b>Adjustments</b>		
Lease termination costs	\$ 15,805	\$ 7,143	\$ (2,775)	\$ 20,173
Severance	7,042	993	(8,035)	
Change of control payments	6,525		(6,525)	
Consulting costs	2,738	1,154	(3,892)	
Other	4,707	670	(5,377)	

Total merger-related charges	\$ 36,817	\$ 9,960	\$ (26,604)	\$ 20,173
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**16. Guarantor and Nonguarantor Financial Statements**

The 9 ¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11 ¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. (See Note 9 to the consolidated financial statements for additional information on the 9 ¾% senior notes and the 11 ¼% senior subordinated notes.)

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of March 31, 2004 and December 31, 2003; condensed consolidating statements of operations for the three months ended March 31, 2004 and 2003; and condensed consolidating statements of cash flows for the three months ended March 31, 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

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

(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 intercompany balances and transactions. The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. The condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003, reflect the allocation of goodwill based upon the estimated fair value of Insignia's acquired reporting units (See Note 2 to the consolidated financial statements for additional information).

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF MARCH 31, 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	\$ 3,177	\$ 13,338	\$ 21,932	\$ 15,807	\$	\$ 54,254
Restricted cash			13,036	2,129		15,165
Receivables, less allowance for doubtful accounts	17	18	123,953	148,586		272,574
Warehouse receivable			72,725			72,725
Prepaid expenses and other current assets	75,865	30,126	27,220	23,976	(29,145)	128,042
<b>Total current assets</b>	<b>79,059</b>	<b>43,482</b>	<b>258,866</b>	<b>190,498</b>	<b>(29,145)</b>	<b>542,760</b>
Property and equipment, net			70,834	46,506		117,340
Goodwill			578,218	247,461		825,679
Other intangible assets, net			97,093	26,601		123,694
Deferred compensation assets		81,111				81,111
Investment in and advances to unconsolidated subsidiaries		5,361	53,455	14,538		73,354
Investment in consolidated subsidiaries	279,195	67,695	128,892		(475,782)	
Intercompany loan receivable		950,064			(950,064)	
Deferred tax assets, net	30,216					30,216
Other assets, net	2,305	31,673	31,860	59,743		125,581
<b>Total Assets</b>	<b>\$ 390,775</b>	<b>\$ 1,179,386</b>	<b>\$ 1,219,218</b>	<b>\$ 585,347</b>	<b>\$ (1,454,991)</b>	<b>\$ 1,919,735</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,192	\$ 20,709	\$ 78,412	\$ 88,412	\$	\$ 188,725
Intercompany payable	29,145				(29,145)	
Compensation and employee benefits payable			89,389	54,608		143,997
Accrued bonus and profit sharing			29,340	53,821		83,161
<b>Short-term borrowings:</b>						
Warehouse line of credit			72,725			72,725
Revolver and swingline credit facility		13,250				13,250
Other			25,620	2,226		27,846
<b>Total short-term borrowings</b>		<b>13,250</b>	<b>98,345</b>	<b>2,226</b>		<b>113,821</b>
Current maturities of long-term debt		10,000	1,028	224		11,252
Other current liabilities	12,522			120		12,642
<b>Total Current Liabilities</b>	<b>42,859</b>	<b>43,959</b>	<b>296,514</b>	<b>199,411</b>	<b>(29,145)</b>	<b>553,598</b>
<b>Long-Term Debt:</b>						



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11¼% senior subordinated notes, net of unamortized discount		226,236				226,236
Senior secured term loan		285,000				285,000
9¾% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,756					35,756
Other long-term debt			330	43,170		43,500
Intercompany loan payable			807,692	142,372	(950,064)	
<b>Total long-term debt</b>	<b>35,756</b>	<b>711,236</b>	<b>808,022</b>	<b>185,542</b>	<b>(950,064)</b>	<b>790,492</b>
Deferred compensation liability		144,996				144,996
Other liabilities			46,987	64,642		111,629
<b>Total Liabilities</b>	<b>78,615</b>	<b>900,191</b>	<b>1,151,523</b>	<b>449,595</b>	<b>(979,209)</b>	<b>1,600,715</b>
Minority interest				6,860		6,860
Commitments and contingencies						
Stockholders' Equity:	312,160	279,195	67,695	128,892	(475,782)	312,160
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 390,775</b>	<b>\$ 1,179,386</b>	<b>\$ 1,219,218</b>	<b>\$ 585,347</b>	<b>\$ (1,454,991)</b>	<b>\$ 1,919,735</b>

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**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			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
Investment in and advances to unconsolidated subsidiaries		4,973	50,732	12,656		68,361
Investment in consolidated subsidiaries	321,451	252,399	199,393		(773,243)	
Intercompany 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
Intercompany 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			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>						
		226,173				226,173

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11¼% senior subordinated notes, net of unamortized discount						
Senior secured term loan		287,500				287,500
9¾% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,472					35,472
Other long-term debt			330	41,945		42,275
Inter-company loan payable			726,844	60,165	(787,009)	
<b>Total long-term debt</b>	<b>35,472</b>	<b>713,673</b>	<b>727,174</b>	<b>102,110</b>	<b>(787,009)</b>	<b>791,420</b>
Deferred compensation liability		138,037				138,037
Other liabilities			48,356	62,666		111,022
<b>Total Liabilities</b>	<b>89,848</b>	<b>869,324</b>	<b>1,307,746</b>	<b>434,654</b>	<b>(827,676)</b>	<b>1,873,896</b>
Minority interest				6,656		6,656
Commitments and contingencies						
Stockholders' Equity:	332,929	321,451	252,399	199,393	(773,243)	332,929
<b>Total Liabilities and Stockholders' Equity</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>

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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 THREE MONTHS ENDED MARCH 31, 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	\$	\$	\$ 308,899	\$ 132,093	\$	\$ 440,992
Costs and expenses:						
Cost of services			163,546	60,676		224,222
Operating, administrative and other	296	2,574	126,091	70,290		199,251
Depreciation and amortization			9,967	6,864		16,831
Merger-related charges			7,672	2,288		9,960
Operating (loss) income	(296)	(2,574)	1,623	(8,025)		(9,272)
Equity income (loss) from unconsolidated subsidiaries		352	2,451	(277)		2,526
Interest income	27	14,240	650	1,612	(14,222)	2,307
Interest expense	2,071	16,168	12,996	3,666	(14,222)	20,679
Equity loss from consolidated subsidiaries	(14,612)	(12,727)	(7,750)		35,089	
Loss before benefit for income taxes	(16,952)	(16,877)	(16,022)	(10,356)	35,089	(25,118)
Benefit for income taxes	(384)	(2,265)	(3,295)	(2,606)		(8,550)
Net loss	\$ (16,568)	\$ (14,612)	\$ (12,727)	\$ (7,750)	\$ 35,089	\$ (16,568)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED MARCH 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>
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Revenue	\$	\$	\$ 190,490	\$ 73,234	\$	\$ 263,724
Costs and expenses:						
Cost of services			89,697	33,902		123,599
Operating, administrative and other	100	1,968	83,035	41,072		126,175
Depreciation and amortization			4,234	1,937		6,171
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating (loss) income	(100)	(1,968)	13,524	(3,677)		7,779
Equity income (loss) from unconsolidated subsidiaries		24	3,249	(210)		3,063
Interest income	36	9,313	455	566	(9,295)	1,075
Interest expense	2,909	10,066	8,855	1,789	(9,295)	14,324
Equity income (loss) from consolidated subsidiaries	331	3,378	(4,649)		940	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(Loss) income before (benefit) provision for income taxes	(2,642)	681	3,724	(5,110)	940	(2,407)
(Benefit) provision for income taxes	(1,295)	350	346	(461)		(1,060)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net (loss) income	\$ (1,347)	\$ 331	\$ 3,378	\$ (4,649)	\$ 940	\$ (1,347)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 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>	\$ (14,076)	\$ 15,002	\$ (78,947)	\$ (9,346)	\$ (87,367)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures, net of concessions received			(9,039)	(1,367)	(10,406)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(3,060)	(4,009)	(7,069)
Other investing activities, net			456	(2,079)	(1,623)
Net cash used in investing activities			(11,643)	(7,455)	(19,098)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		47,500			47,500
Repayment of revolver and swingline credit facility		(34,250)			(34,250)
Repayment of senior secured term loan		(2,500)			(2,500)
Repayment of euro cash pool and other loans, net			(286)	(12,516)	(12,802)
Decrease (increase) in intercompany receivables, net	13,975	(12,276)	(35,944)	34,245	
Other financing activities, net	270	(155)		(266)	(151)
Net cash provided by (used in) financing activities	14,245	(1,681)	(36,230)	21,463	(2,203)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	169	13,321	(126,820)	4,662	(108,668)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	3,008	17	148,752	12,104	163,881
Effect of currency exchange rate changes on cash				(959)	(959)
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 3,177	\$ 13,338	\$ 21,932	\$ 15,807	\$ 54,254

**SUPPLEMENTAL DATA:**

Cash paid during the period for:

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Interest, net of amount capitalized	\$ 1,533	\$ 3,436	\$ 384	\$ 529	\$ 5,882
Income taxes, net of refunds	3,529				3,529

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 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>	\$ (678)	\$ 4,924	\$ (45,078)	\$ (29,929)	\$ (70,761)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures, net of concessions received			(3,228)	(772)	(4,000)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(22)		(22)
Other investing activities, net			1,866	(338)	1,528
Net cash used in investing activities			(1,384)	(1,110)	(2,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		33,750			33,750
Repayment of revolver and swingline credit facility		(20,250)			(20,250)
Repayment of senior secured term loans		(2,338)			(2,338)
(Increase) decrease in intercompany receivables, net		(15,864)	(15,256)	31,120	
Other financing activities, net	633			(39)	594
Net cash provided by (used in) financing activities	633	(4,702)	(15,256)	31,081	11,756
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(45)	222	(61,718)	42	(61,499)
<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				1,168	1,168
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 82	\$ 276	\$ 12,455	\$ 6,557	\$ 19,370
<b>SUPPLEMENTAL DATA:</b>					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 2,009	\$ 3,160	\$ 406	\$ 248	\$ 5,823



Income taxes, net of refunds

14,532

14,532

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****17. 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):

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Revenue</b>		
Americas	\$ 327,191	\$ 199,950
EMEA	85,357	45,478
Asia Pacific	28,444	18,296
	<u>\$ 440,992</u>	<u>\$ 263,724</u>
<b>Operating (loss) income</b>		
Americas	\$ 205	\$ 11,270
EMEA	(9,985)	(688)
Asia Pacific	508	(2,803)
	<u>(9,272)</u>	<u>7,779</u>
<b>Equity income (loss) from unconsolidated subsidiaries</b>		
Americas	2,480	3,226
EMEA	(238)	(126)
Asia Pacific	284	(37)
	<u>2,526</u>	<u>3,063</u>
<b>Interest income</b>	2,307	1,075
<b>Interest expense</b>	20,679	14,324
	<u></u>	<u></u>
<b>Loss before benefit for income tax</b>	<u>\$ (25,118)</u>	<u>\$ (2,407)</u>

**18. Subsequent Events**

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On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness. In May 2004, we purchased \$20.1 in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of \$2.9 of premiums in connection with these purchases.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized Class A common shares to 325,000,000 and the authorized Class B common shares to 100,000,000. Additionally, 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 , 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.

On May 12, 2004, our wholly owned subsidiary, L.J. Melody & Company, modified its credit agreement with RFC to provide a temporary revolving line of credit increase of \$100.0 million that resulted in a total line of credit under the agreement equaling \$350.0 million. This increase will be effective on May 30, 2004 and expires 90 days after the effective date.

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**INDEPENDENT AUDITORS REPORT**

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 auditing standards generally accepted in the United States of America. 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.

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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The accompanying consolidated financial statements reflect the 3-for-1 split of common stock, which was effected on May 4, 2004, and the 1-for-1.0825 reverse split of common stock, which is expected to be effected on or about June 7, 2004. The above report is in the form which will be signed by Deloitte & Touche LLP upon consummation of such split and reverse split, which are described in Note 23 of Notes to Consolidated Financial Statements, and assuming that, from March 30, 2004 to the date of such reverse split, no other events shall have occurred, other than those described in Note 23 of Notes to Consolidated Financial Statements, that would affect the accompanying consolidated financial statements and notes thereto.

DELOITTE & TOUCHE LLP

Los Angeles, California

May 19, 2004

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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  December 31,	Period From January 1  to July 20,  2001
	2003	2002	2001	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		Additional paid-in capital	Notes receivable from sale of stock	Accumulated earnings	Accumulated other comprehensive income (loss)		Treasury stock	Total
	Class A common stock	Class B common stock				Minimum pension liability	Foreign 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)

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Balance, December 31, 2003	\$ 76	\$ 534	\$ 361,522	\$ (4,680)	\$ 1,449	\$ (15,109)	\$ (8,671)	\$ (2,192)	\$ 332,929
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**Predecessor Company**

	<b>Predecessor Company</b>						
	<b>Notes</b>			<b>Accumulated</b>			
	<b>Common</b>	<b>Additional</b>	<b>receivable</b>	<b>Accumulated</b>	<b>other</b>		<b>Treasury</b>
		<b>paid-in</b>	<b>from sale</b>		<b>comprehensive</b>	<b>loss</b>	
<b>stock</b>	<b>capital</b>	<b>of stock</b>	<b>deficit</b>	<b>loss</b>	<b>stock</b>	<b>Total</b>	
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	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. 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)
Pro Forma	\$ (0.69)	\$ 0.43	\$ 0.78	\$ (1.73)

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.

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**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 18,255,339 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 631,497 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 1,732,102 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 166,282 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/>	<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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<u>Other</u>	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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**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>
-----------------------------	-------------------	------------------

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,	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	467,668	106,063	3,406	577,137
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>
Balance at December 31, 2003	\$ 598,439	\$ 217,106	\$ 4,013	\$ 819,558

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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):

	December 31,	
	2003	2002
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>Exercise</b>	<b>Exercisable</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		
	<u>4,873,435</u>	<u>6.51</u>		
Outstanding at December 31, 2001				
Granted	343,297	5.77		
Forfeited	(485,806)	5.77		
	<u>4,730,926</u>	<u>6.53</u>	<u>769,261</u>	<u>\$ 5.77</u>
Outstanding at December 31, 2002				
Granted	2,931,905	5.77		
Forfeited	(58,107)	5.77		
	<u>7,604,724</u>	<u>\$ 6.24</u>	<u>1,538,575</u>	<u>\$ 5.77</u>
Outstanding at December 31, 2003				
	<b>Predecessor Company</b>			
	<b>Weighted</b>		<b>Weighted</b>	
	<b>Average</b>		<b>Average</b>	
	<b>Exercise</b>	<b>Exercise</b>	<b>Exercisable</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	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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**Table of Contents****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>3/4</sup>% Senior Notes. The 9<sup>3/4</sup>% 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>3/4</sup>% 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>3/4</sup>% per year and is payable semi-annually in arrears on May 15 and November 15. The 9<sup>3/4</sup>% 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>3/4</sup>% Senior Notes at 109<sup>3/4</sup>% 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>3/4</sup>% Senior Notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9<sup>3/4</sup>% 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>1/4</sup>% 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>1/4</sup>% Senior Subordinated Notes in connection with the 2001 Merger on July 20, 2001. 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. The 11<sup>1/4</sup>% 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>1/4</sup>% 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>1/4</sup>% 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>1/4</sup>% 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
	<hr/>

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

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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):

	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
Federal:				
Current	\$ (5,335)	\$ 10,204	\$ 11,747	\$
Deferred	(6,637)	6,232	(3,252)	(911)
Change in valuation allowances			796	

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	(11,972)	16,436	9,291	(911)
State:				
Current		1,824	3,173	1,600
Deferred	(1,613)	378	(494)	(658)
	(1,613)	2,202	2,679	942
Foreign:				
Current	6,642	12,920	10,137	1,079
Deferred	667	(1,452)	(4,091)	
	7,309	11,468	6,046	1,079
	\$ (6,276)	\$ 30,106	\$ 18,016	\$ 1,110

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a reconciliation, stated as a percentage of pre-tax income, of the U.S. statutory federal income tax rate to our effective tax rate on income from operations:

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,	Period From February 20	Period From January 1	Period From January 1
		(inception)	to	to July 20,
	2003	2002	2001	2001
Federal statutory tax rate	(35)%	35%	35%	(35)%
Permanent differences	1	15	5	25
State taxes, net of federal benefit	(3)	3	5	2
Taxes on foreign income which differ from the U.S. statutory rate	21	9	4	11
State NOLs not benefited	1			
Change in valuation allowances			2	
Effective tax rate	(15)%	62%	51%	3%

The domestic component of (loss) income before (benefit) provision for income taxes included in the accompanying consolidated statements of operations was \$(31.6) million for the year ended December 31, 2003, \$32.3 million for the year ended December 31, 2002, \$22.6 million for the period from February 20 (inception) to December 31, 2001 and \$(21.5) million for the period from January 1 to July 20, 2001. The international component of (loss) income before (benefit) provision for income taxes was \$(9.4) million for the year ended December 31, 2003, \$16.5 million for the year ended December 31, 2002, \$12.8 million for the period from February 20 (inception) to December 31, 2001 and \$(11.4) million for the period from January 1 through July 20, 2001.

Cumulative tax effects of temporary differences are shown below at December 31, 2003 and 2002 (in thousands):

December 31,

	<u>2003</u>	<u>2002</u>
<b>Asset (Liability)</b>		
Property and equipment	\$ 6,738	\$ 10,960
Bad debts and other reserves	(17,768)	(14,228)
Capitalized costs and intangibles	(4,113)	(7,003)
Bonus, unexercised restricted stock, deferred compensation	80,048	57,780
Investment	5,622	4,189
Net operating loss (NOL), alternative minimum tax credit and charitable contribution carryforwards	36,200	5
Unconsolidated affiliates	5,266	5,283
Pension obligation	14,492	7,303
Acquisitions	3,237	
All other	18,892	4,702
	<u>          </u>	<u>          </u>
Net deferred tax assets before valuation allowances	148,614	68,991
Valuation allowances	(58,754)	(13,892)
	<u>          </u>	<u>          </u>
Net deferred tax assets	<u>\$ 89,860</u>	<u>\$ 55,099</u>

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Total deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 were as follows (in thousands):

	December 31,	
	2003	2002
Total deferred tax assets	\$ 213,164	\$ 103,302
Deferred tax asset valuation allowances	(58,754)	(13,892)
	154,410	89,410
Total deferred tax liabilities	(64,550)	(34,311)
Net deferred tax assets	\$ 89,860	\$ 55,099

As a result of the Insignia Acquisition and the current year's tax loss, at December 31, 2003, we had U.S. federal NOL carryforwards of approximately \$67.7 million, translating to a deferred tax asset before valuation allowance of \$23.7 million. Approximately \$3.8 million of these NOLs begin to expire in 2010 and the remainder begins to expire in 2019. There were also deferred tax assets of approximately \$9.8 million related to state NOLs. The utilization of NOLs may be subject to certain limitations under U.S. federal and state laws.

Management determined that as of December 31, 2003, \$58.8 million of deferred tax assets do not satisfy the recognition criteria set forth in SFAS No. 109. Accordingly, a valuation allowance has been recorded for this amount. The valuation allowance was recorded against deferred tax assets during the 2001 Merger and the Insignia Acquisition, with the offset to goodwill. Accordingly, any tax benefits subsequently recognized will reduce goodwill.

A deferred U.S. tax liability has not been provided on the unremitted earnings of foreign subsidiaries because it is our intent to permanently reinvest these earnings. Unremitted earnings of foreign subsidiaries, which have been, or are intended to be, permanently invested in accordance with APB No. 23, *Accounting for Income Taxes - Special Areas*, aggregated \$79.0 million at December 31, 2003. The determination of the tax liability upon repatriation is not practicable.

**15. Stockholders' Equity**

We are authorized to issue 425,000,000 shares of common stock, including 325,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock, both with \$0.01 par value per share. The holders of Class A common stock are entitled to one vote for each share. Holders of Class B common stock are entitled to ten votes for each share. There are no differences between the two classes of common

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stock other than the number of votes. The holders of Class A and Class B common stock shall share equally on a per-share basis all dividends and other cash, stock or property distributions.

Upon written request of any holder of Class B common stock, any shares will be automatically converted on a share-for-share basis into the same number of shares of Class A common stock. In addition, upon any transfer, sale or other disposition of shares of Class B common stock, other than transfers to certain permitted transferees, such shares shall be converted into shares of Class A common stock on a share-for-share basis. Also, upon completion of an underwritten public offering in which we become listed on a national securities exchange, all outstanding shares of Class B common stock shall automatically be converted into shares of Class A common stock on a share-for-share basis.

As long as Class B common stock is outstanding, if a holder of Class B common stock purchases any shares of Class A common stock, the holder may convert the Class A common shares on a share-for-share basis into the same number of shares of Class B common stock.

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 16. (Loss) Earnings Per Share Information

The following is a calculation of (loss) earnings per share (dollars in thousands, except share data):

	CB Richard Ellis Group									Predecessor Company		
	Year Ended December 31,						Period From February 20			Period From January 1		
	2003			2002			(inception) to December 31, 2001			to July 20, 2001		
	Per Share			Per Share			Per Share			Per Share		
Loss	Shares	Amount	Income	Shares	Amount	Income	Shares	Amount	Loss	Shares	Amount	
<b>Basic (loss) earnings per share:</b>												
Net (loss) income applicable to common stockholders												
	\$ (34,704)	50,918,572	\$ (0.68)	\$ 18,727	41,640,576	\$ 0.45	\$ 17,426	21,741,351	\$ 0.80	\$ (34,020)	21,306,584	\$ (1.60)
<b>Diluted (loss) earnings per share:</b>												
Net (loss) income applicable to common stockholders												
	\$ (34,704)	50,918,572		\$ 18,727	41,640,576		\$ 17,426	21,741,351		\$ (34,020)	21,306,584	
Dilutive effect of contingently issuable shares												
				545,413			179,564					
Net (loss) income applicable to common stockholders												
	\$ (34,704)	50,918,572	\$ (0.68)	\$ 18,727	42,185,989	\$ 0.44	\$ 17,426	21,920,915	\$ 0.79	\$ (34,020)	21,306,584	\$ (1.60)

The following items were not included in the computation of diluted (loss) earnings per share because their exercise price was at or above fair market value during such periods:



	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20	Period From January 1
	2003	2002	(inception) to December 31, 2001	to July 20, 2001
<b>Stock options</b>				
Outstanding	6,896,705	4,022,907	4,165,416	2,562,150
Price ranges	\$5.77	\$5.77	\$5.77	\$0.38 - \$36.75
Expiration ranges	7/20/11 - 11/5/13	7/20/11 - 7/31/12	7/20/11	6/8/04 - 8/31/10
<b>Stock warrants</b>				
Outstanding	708,019	708,019	708,019	597,969
Price	\$10.825	\$10.825	\$10.825	\$30.00
Expiration date	8/27/07	8/27/07	8/27/07	8/28/04

All options and warrants for the year ended December 31, 2003 and for the period from January 1 to July 20, 2001 were anti-dilutive since we reported a net loss in these periods. Any assumed exercise of options or warrants would have been anti-dilutive as they would have resulted in a lower loss per share.

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Fiduciary Funds**

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which are held by us on behalf of clients and which amounted to \$626.3 million and \$414.6 million at December 31, 2003 and 2002, respectively.

**18. 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:* This balance includes cash and cash equivalents with maturities of less than three months. The carrying amount approximates fair value due to the short maturity of these instruments.

*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 12).

*11 1/4% Senior Subordinated Notes:* Based on dealers' quotes, the estimated fair value of the 11 1/4% Senior Subordinated Notes is \$256.5 million and \$208.4 million at December 31, 2003 and 2002, respectively. Their actual carrying value totaled \$226.2 million and \$225.9 million at December 31, 2003 and 2002, respectively (See Note 12).

*9 3/4% Senior Notes:* Based on dealers' quotes, the estimated fair value of the 9 3/4% Senior Notes is \$222.0 million at December 31, 2003. Their actual carrying value totaled \$200.0 million at December 31, 2003 (See Note 12).

*16% Senior Notes:* There was no trading activity for the 16% Senior Notes, which are due in 2011. Their carrying value totaled \$35.5 million and \$61.9 million at December 31, 2003 and 2002, respectively (see Note 12).

*Senior Secured Terms Loans & Other Long-Term Debt:* Estimated fair values approximate respective carrying values because the majority of these instruments are based on variable interest rates (see Note 12).

**19. Merger-Related and Other Nonrecurring Charges**

We recorded merger-related charges of \$36.8 million for the year ended December 31, 2003 in connection with the Insignia Acquisition. The charges consisted of the following (dollars in thousands):

	<b>2003 Charge</b>	<b>Utilized to Date</b>	<b>To be Utilized</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Lease termination costs	\$ 15,805	\$ 977	\$ 14,828
Severance	7,042	7,042	
Change of control payments	6,525	6,525	
Consulting costs	2,738	2,738	
Other	4,707	4,707	
	<u>          </u>	<u>          </u>	<u>          </u>
Total merger-related charges	<u>\$ 36,817</u>	<u>\$ 21,989</u>	<u>\$ 14,828</u>

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the period from February 20 (inception) to December 31, 2001, we recorded nonrecurring pre-tax charges totaling \$6.4 million, which mainly related to the write-off of e-business investments. During the period from January 1 to July 20, 2001, CBRE recorded merger-related and other nonrecurring charges of \$22.1 million, which included merger-related costs incurred of \$16.4 million, severance costs incurred of \$2.8 million related to CBRE's cost reduction program implemented in May 2001, as well as the write-off of an e-business investment of \$2.9 million.

**20. Guarantor and Nonguarantor Financial Statements**

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. In addition, 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. See Note 12 for additional information on the 9<sup>3</sup>/<sub>4</sub>% Senior Notes and the 11<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes.

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of December 31, 2003 and 2002; condensed consolidating statements of operations 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, and condensed consolidating statements of cash flows 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 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 intercompany balances and transactions. The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. 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 (See Note 3 for additional information).

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****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			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
Investment in and advances to unconsolidated subsidiaries		4,973	50,732	12,656		68,361
Investment in consolidated subsidiaries	321,451	252,399	199,393		(773,243)	
Intercompany 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			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

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Total current liabilities	54,376	17,614	532,216	269,878	(40,667)	833,417
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		226,173				226,173
Senior secured term loans		287,500				287,500
9 3/4% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,472					35,472
Other long-term debt			330	41,945		42,275
Intercompany loan payable			726,844	60,165	(787,009)	
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

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING BALANCE SHEET**

AS OF DECEMBER 31, 2002

(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	\$ 127	\$ 54	\$ 74,173	\$ 5,347	\$	\$ 79,701
Receivables, less allowance for doubtful accounts		40	61,624	104,549		166,213
Warehouse receivable			63,140			63,140
Prepaid expenses and other current assets	18,723	22,201	8,432	7,729	(20,199)	36,886
<b>Total current assets</b>	<b>18,850</b>	<b>22,295</b>	<b>207,369</b>	<b>117,625</b>	<b>(20,199)</b>	<b>345,940</b>
Property and equipment, net			51,419	15,215		66,634
Goodwill			442,965	134,172		577,137
Other intangible assets, net			89,075	2,007		91,082
Deferred compensation assets		63,642				63,642
Investment in and advances to unconsolidated subsidiaries		4,782	39,205	6,221		50,208
Investment in consolidated subsidiaries	302,593	322,794	66,162		(691,549)	
Intercompany loan receivable		429,396			(429,396)	
Deferred tax assets, net	36,376					36,376
Other assets, net	4,896	17,464	20,453	51,044		93,857
<b>Total assets</b>	<b>\$ 362,715</b>	<b>\$ 860,373</b>	<b>\$ 916,648</b>	<b>\$ 326,284</b>	<b>\$ (1,141,144)</b>	<b>\$ 1,324,876</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 2,137	\$ 4,610	\$ 36,895	\$ 58,773	\$	\$ 102,415
Intercompany payable	20,199				(20,199)	
Compensation and employee benefits payable			40,938	22,796		63,734
Accrued bonus and profit sharing			59,942	43,916		103,858
Income taxes payable	15,451					15,451
<b>Short-term borrowings:</b>						
Warehouse line of credit			63,140			63,140
Other			12,145	47,909		60,054
<b>Total short-term borrowings</b>			<b>75,285</b>	<b>47,909</b>		<b>123,194</b>
Current maturities of long-term debt		9,975		736		10,711
Other current liabilities	11,724					11,724

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Total current liabilities	49,511	14,585	213,060	174,130	(20,199)	431,087
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		225,943				225,943
Senior secured term loans		211,000				211,000
16% senior notes, net of unamortized discount	61,863					61,863
Other long-term debt				198		198
Intercompany loan payable			362,344	67,052	(429,396)	
Total long-term debt	61,863	436,943	362,344	67,250	(429,396)	499,004
Deferred compensation liability		106,252				106,252
Other liabilities			18,450	13,127		31,577
Total liabilities	111,374	557,780	593,854	254,507	(449,595)	1,067,920
Minority interest				5,615		5,615
Commitments and contingencies						
Stockholders' equity	251,341	302,593	322,794	66,162	(691,549)	251,341
Total liabilities and stockholders' equity	\$ 362,715	\$ 860,373	\$ 916,648	\$ 326,284	\$ (1,141,144)	\$ 1,324,876

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE YEAR ENDED 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>
Revenue	\$	\$	\$ 1,137,987	\$ 492,087	\$	\$ 1,630,074
Costs and expenses:						
Cost of services			577,808	218,600		796,408
Operating, administrative and other	426	4,973	447,447	225,551		678,397
Depreciation and amortization			56,853	35,769		92,622
Merger-related and other nonrecurring charges			20,367	16,450		36,817
Operating (loss) income	(426)	(4,973)	35,512	(4,283)		25,830
Equity income from unconsolidated subsidiaries		132	13,818	415		14,365
Interest income	185	39,312	2,659	2,738	(38,853)	6,041
Interest expense	17,815	61,907	38,046	8,301	(38,853)	87,216
Equity losses from consolidated subsidiaries	(21,214)	(8,432)	(16,739)		46,385	
Loss before (benefit) provision for income taxes	(39,270)	(35,868)	(2,796)	(9,431)	46,385	(40,980)
(Benefit) provision for income taxes	(4,566)	(14,654)	5,636	7,308		(6,276)
Net loss	\$ (34,704)	\$ (21,214)	\$ (8,432)	\$ (16,739)	\$ 46,385	\$ (34,704)

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE YEAR ENDED DECEMBER 31, 2002****(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	\$	\$	\$ 849,563	\$ 320,714	\$	\$ 1,170,277
Costs and expenses:						
Cost of services			413,830	133,263		547,093
Operating, administrative and other	415	1,186	345,279	154,918		501,798
Depreciation and amortization			15,833	8,781		24,614
Merger-related and other nonrecurring charges		36				36
Operating (loss) income	(415)	(1,222)	74,621	23,752		96,736
Equity income from unconsolidated subsidiaries		662	7,449	1,215		9,326
Interest income	158	42,845	2,079	916	(42,726)	3,272
Interest expense	11,344	42,731	39,742	9,410	(42,726)	60,501
Equity income from consolidated subsidiaries	27,306	32,898	5,005		(65,209)	
Income before (benefit) provision for income taxes	15,705	32,452	49,412	16,473	(65,209)	48,833
(Benefit) provision for income taxes	(3,022)	5,146	16,514	11,468		30,106
Net income	\$ 18,727	\$ 27,306	\$ 32,898	\$ 5,005	\$ (65,209)	\$ 18,727

**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE PERIOD FROM FEBRUARY 20 (INCEPTION) TO DECEMBER 31, 2001****(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	\$	\$	\$ 416,446	\$ 146,382	\$	\$ 562,828
Costs and expenses:						
Cost of services			207,019	56,582		263,601
Operating, administrative and other	500	3,589	145,145	70,175		219,409
Depreciation and amortization			8,523	3,675		12,198
Merger-related and other nonrecurring charges		2,144	3,530	768		6,442
Operating (loss) income	(500)	(5,733)	52,229	15,182		61,178
Equity income from unconsolidated subsidiaries		198	1,290	66		1,554
Interest income	1,135	19,270	370	561	(18,909)	2,427
Interest expense	8,199	20,353	17,091	2,983	(18,909)	29,717
Equity income from consolidated subsidiaries	22,721	27,713	8,605		(59,039)	
Income before (benefit) provision for income taxes	15,157	21,095	45,403	12,826	(59,039)	35,442
(Benefit) provision for income taxes	(2,269)	(1,626)	17,690	4,221		18,016
Net income	\$ 17,426	\$ 22,721	\$ 27,713	\$ 8,605	\$ (59,039)	\$ 17,426

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE PERIOD FROM JANUARY 1 TO JULY 20, 2001****(Predecessor Company)****(Dollars in thousands)**

	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated Total</b>
Revenue	\$	\$ 465,280	\$ 142,654	\$	\$ 607,934
Costs and expenses:					
Cost of services		217,799	61,404		279,203
Operating, administrative and other	1,155	216,063	80,778		297,996
Depreciation and amortization		17,021	8,635		25,656
Merger-related and other nonrecurring charges	19,260	2,867			22,127
Operating (loss) income	(20,415)	11,530	(8,163)		(17,048)
Equity income from unconsolidated subsidiaries	492	2,141	241		2,874
Interest income	16,757	952	615	(16,757)	1,567
Interest expense	18,014	14,952	4,094	(16,757)	20,303
Equity losses from consolidated subsidiaries	(14,587)	(12,480)		27,067	
Loss before (benefit) provision for income taxes	(35,767)	(12,809)	(11,401)	27,067	(32,910)
(Benefit) provision for income taxes	(1,747)	1,778	1,079		1,110
Net loss	\$ (34,020)	\$ (14,587)	\$ (12,480)	\$ 27,067	\$ (34,020)

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31, 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>	\$ (30,872)	\$ 5,041	\$ 59,797	\$ 29,975	\$ 63,941
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures, net of concessions received			(14,182)	(12,779)	(26,961)
Proceeds from sale of properties and servicing rights			3,753	196	3,949
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(276,401)	12,718	(263,683)
Other investing activities, net		26	6,415	(4,541)	1,900
Net cash provided by (used in) investing activities		26	(280,415)	(4,406)	(284,795)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		152,580			152,580
Repayment of revolver and swingline credit facility		(152,580)			(152,580)
Proceeds from senior secured term loans		375,000			375,000
Repayment of senior secured term loans		(298,475)			(298,475)
Proceeds from 9 <sup>3</sup> / <sub>4</sub> % senior notes		200,000			200,000
Repayment of notes payable		(43,000)			(43,000)
Repayment of 16% senior notes	(30,000)				(30,000)
(Repayment of) proceeds from senior notes and other loans, net			(914)	3,943	3,029
Proceeds from issuance of common stock	120,980				120,980
(Increase) decrease in intercompany receivables, net	(56,894)	(215,929)	296,111	(23,288)	
Other financing activities, net	(333)	(22,700)		(837)	(23,870)

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Net cash provided by (used in) financing activities	33,753	(5,104)	295,197	(20,182)	303,664
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,881	(37)	74,579	5,387	82,810
<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				1,370	1,370
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 3,008	\$ 17	\$ 148,752	\$ 12,104	\$ 163,881

**SUPPLEMENTAL DATA:**

Cash paid during the period for:

Interest, net of amount capitalized	\$ 15,823	\$ 44,201	\$ 1,491	\$ 2,203	\$ 63,718
Income taxes, net of refunds	17,783				17,783

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## CB RICHARD ELLIS GROUP, INC.

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>					
<b>OPERATING ACTIVITIES:</b>	\$ 509	\$ (7,905)	\$ 42,090	\$ 30,188	\$ 64,882
<b>CASH FLOWS FROM INVESTING</b>					
<b>ACTIVITIES</b>					
Capital expenditures, net of concessions received			(10,049)	(4,217)	(14,266)
Proceeds from sale of properties and servicing rights			2,515	3,863	6,378
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(11,588)	(35)	(3,188)	(14,811)
Other investing activities, net		44	196	(1,671)	(1,431)
Net cash used in investing activities		(11,544)	(7,373)	(5,213)	(24,130)
<b>CASH FLOWS FROM FINANCING</b>					
<b>ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		238,000			238,000
Repayment of revolver and swingline credit facility		(238,000)			(238,000)
Repayment of senior secured term loans		(9,351)			(9,351)
Repayment of senior notes and other loans, net		(189)	(3,116)	(4,900)	(8,205)
Decrease (increase) in intercompany receivables, net		28,284	462	(28,746)	
Other financing activities, net	(385)	(172)	(94)	369	(282)
Net cash (used in) provided by financing activities	(385)	18,572	(2,748)	(33,277)	(17,838)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	124	(877)	31,969	(8,302)	22,914
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	3	931	42,204	14,312	57,450
Effect of currency exchange rate changes on cash				(663)	(663)

<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 127	\$ 54	\$ 74,173	\$ 5,347	\$ 79,701
<b>SUPPLEMENTAL DATA:</b>					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 8,509	\$ 38,751	\$ 1,635	\$ 3,752	\$ 52,647
Income taxes, net of refunds	19,142				19,142

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CB RICHARD ELLIS GROUP, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE PERIOD FROM FEBRUARY 20 (INCEPTION) TO DECEMBER 31, 2001****(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>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	\$ 310	\$ 5,947	\$ 56,478	\$ 28,599	\$	\$ 91,334
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Capital expenditures, net of concessions received			(4,246)	(2,255)		(6,501)
Proceeds from sale of properties and servicing rights			1,996	112		2,108
Investment in property held for sale				(40,174)		(40,174)
Contribution to CBRE	(154,881)				154,881	
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(212,369)	(1,850)	(483)		(214,702)
Other investing activities, net		(1)	(1,950)	(173)		(2,124)
Net cash used in investing activities	(154,881)	(212,370)	(6,050)	(42,973)	154,881	(261,393)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Proceeds from revolver and swingline credit facility		113,750				113,750
Repayment of revolver and swingline credit facility		(113,750)				(113,750)
Proceeds from senior secured term loans		235,000				235,000
Repayment of senior secured term loans		(4,675)				(4,675)
Proceeds from 16% senior notes	65,000					65,000
Repayment of senior notes and other loans, net			(1,185)	(3)		(1,188)
Proceeds from 11 1/4% senior subordinated notes		225,629				225,629
Repayment of 8 7/8% senior subordinated notes		(175,000)				(175,000)
Proceeds from non recourse debt related to property held for sale				37,179		37,179
Repayment of revolving credit facility		(235,000)				(235,000)
Payment of deferred financing fees	(2,582)	(19,168)				(21,750)
Proceeds from issuance of stock	92,156	154,881			(154,881)	92,156

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Decrease (increase) in intercompany receivables, net		30,263	(6,981)	(23,282)		
Other financing activities, net		(5,535)	(103)	2,118		(3,520)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	154,574	206,395	(8,269)	16,012	(154,881)	213,831
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3	(28)	42,159	1,638		43,772
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>		959	45	12,658		13,662
Effect of currency exchange rate changes on cash				16		16
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 3	\$ 931	\$ 42,204	\$ 14,312	\$	\$ 57,450
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DATA:</b>						
Cash paid during the period for:						
Interest, net of amount capitalized	\$ 2,600	\$ 22,562	\$ 874	\$ 90	\$	\$ 26,126
Income taxes, net of refunds	5,061					5,061

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## CB RICHARD ELLIS GROUP, INC.

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JANUARY 1 TO JULY 20, 2001

(Predecessor Company)

(Dollars in thousands)

	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	\$ (37,633)	\$ (53,363)	\$ (29,234)	\$ (120,230)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Capital expenditures, net of concessions received		(11,309)	(3,505)	(14,814)
Proceeds from sale of properties and servicing rights		9,105	439	9,544
Investment in property held for sale			(2,282)	(2,282)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(31)	(1,893)	(1,924)
Other investing activities, net	251	(3,024)	110	(2,663)
Net cash provided by (used in) investing activities	251	(5,259)	(7,131)	(12,139)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from revolving credit facility	195,000			195,000
Repayment of revolving credit facility	(70,000)			(70,000)
(Repayment of) proceeds from senior notes and other loans, net	(2,490)	(1,656)	4,592	446
Payment of deferred financing fees	(8)			(8)
(Increase) decrease in intercompany receivables, net	(85,712)	52,846	32,866	
Other financing activities, net	1,489	(81)	(616)	792
Net cash provided by financing activities	38,279	51,109	36,842	126,230
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	897	(7,513)	477	(6,139)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	62	7,558	13,234	20,854
Effect of currency exchange rate changes on cash			(1,053)	(1,053)
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 959	\$ 45	\$ 12,658	\$ 13,662

**SUPPLEMENTAL DATA:**

Cash paid during the period for:

Interest, net of amount capitalized	\$ 17,194	\$ 1,165	\$ 98	\$ 18,457
Income taxes, net of refunds	19,083			19,083

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21. Industry Segments

We report our operations through three geographically organized segments: (1) Americas, (2) Europe, Middle East and Africa (EMEA) and (3) Asia Pacific. Summarized financial information by operating segment is as follows (dollars in thousands):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20	Period From January 1
	2003	2002	(inception) to December 31, 2001	
				to July 20, 2001
<b>Revenue</b>				
Americas	\$ 1,197,626	\$ 896,064	\$ 440,349	\$ 488,450
EMEA	313,686	182,222	83,012	78,294
Asia Pacific	118,762	91,991	39,467	41,190
	<u>\$ 1,630,074</u>	<u>\$ 1,170,277</u>	<u>\$ 562,828</u>	<u>\$ 607,934</u>
<b>Operating income (loss)</b>				
Americas	\$ 35,107	\$ 72,868	\$ 47,767	\$ (10,801)
EMEA	(20,490)	17,287	11,441	(2,149)
Asia Pacific	11,213	6,581	1,970	(4,098)
	<u>25,830</u>	<u>96,736</u>	<u>61,178</u>	<u>(17,048)</u>
<b>Equity income (loss) from unconsolidated subsidiaries</b>				
Americas	\$ 14,180	\$ 8,425	\$ 1,343	\$ 2,465
EMEA	(188)	82	22	(20)
Asia Pacific	373	819	189	429
	<u>\$ 14,365</u>	<u>\$ 9,326</u>	<u>\$ 1,554</u>	<u>\$ 2,874</u>
<b>Interest income</b>	6,041	3,272	2,427	1,567
<b>Interest expense</b>	87,216	60,501	29,717	20,303
<b>(Loss) income before (benefit) provision for income taxes</b>	<u>\$ (40,980)</u>	<u>\$ 48,833</u>	<u>\$ 35,442</u>	<u>\$ (32,910)</u>

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<b>Depreciation and amortization</b>				
Americas	\$ 58,216	\$ 16,958	\$ 9,221	\$ 18,231
EMEA	31,287	4,579	1,763	4,729
Asia Pacific	3,119	3,077	1,214	2,696
	<u>92,622</u>	<u>24,614</u>	<u>12,198</u>	<u>25,656</u>
<b>Capital expenditures, net of concessions received</b>				
Americas	\$ 14,960	\$ 10,999	\$ 4,692	\$ 12,237
EMEA	10,353	2,018	694	1,557
Asia Pacific	1,648	1,249	1,115	1,020
	<u>26,961</u>	<u>14,266</u>	<u>6,501</u>	<u>14,814</u>

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	December 31,		
	2003	2002	2001
	(Dollars in thousands)		
<b>Identifiable assets</b>			
Americas	\$ 1,426,525	\$ 868,990	\$ 941,732
EMEA	409,087	198,027	171,621
Asia Pacific	124,128	123,059	97,552
Corporate	253,741	134,800	143,607
	<u>\$ 2,213,481</u>	<u>\$ 1,324,876</u>	<u>\$ 1,354,512</u>

Identifiable assets by industry segment are those assets used in our operations in each segment. Corporate identifiable assets include cash and cash equivalents and net deferred tax assets.

	December 31,	
	2003	2002
	(Dollars in thousands)	
<b>Investments in and advances to unconsolidated subsidiaries</b>		
Americas	\$ 56,774	\$ 44,294
EMEA	6,494	1,058
Asia Pacific	5,093	4,856
	<u>\$ 68,361</u>	<u>\$ 50,208</u>

**Geographic Information:**

CB Richard Ellis Group		Predecessor Company
Year Ended December 31,	Period From February 20	Period From January 1
2003	2002	to July 20,
	(inception) to	

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			December 31,	2001
			2001	
			(Dollars in thousands)	
<b>Revenue</b>				
U.S.	\$ 1,137,986	\$ 849,563	\$ 416,445	\$ 465,281
U.K.	179,792	95,947	48,206	48,210
All other countries	312,296	224,767	98,177	94,443
	<u>\$ 1,630,074</u>	<u>\$ 1,170,277</u>	<u>\$ 562,828</u>	<u>\$ 607,934</u>

The revenue shown in the table above is allocated based upon the country in which services are performed.

		December 31,	
		2003	2002
		(Dollars in thousands)	
<b>Long-lived assets</b>			
U.S.		\$ 66,280	\$ 51,419
U.K.		31,707	3,297
All other countries		15,582	11,918
		<u>\$ 113,569</u>	<u>\$ 66,634</u>

The long-lived assets shown in the table above include property and equipment.



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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. Related Party Transactions**

Included in other current and other assets in the accompanying consolidated balance sheets are employee loans of \$31.7 million and \$5.9 million as of December 31, 2003 and 2002, respectively. The majority of these loans represent sign-on and retention bonuses issued or assumed in connection with the Insignia Acquisition as well as prepaid retention and recruitment awards issued to employees. These loans are at varying principal amounts, bear interest at rates up to 10% per annum and mature on various dates through 2008. As of December 31, 2002, the outstanding employee loan balances included a \$0.3 million loan to Ray Wirta, our Chief Executive Officer, and a \$0.2 million loan to Brett White, our President. 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 Mr. Wirta's and Mr. White's loans in full, effective January 1, 2004.

The accompanying consolidated balance sheets also include \$4.7 million and \$4.8 million of notes receivable from sale of stock as of December 31, 2003 and 2002, respectively. These notes are primarily comprised of full recourse loans to our employees, officers and certain shareholders, and are secured by our common stock that is owned by the borrowers. These recourse loans are at varying principal amounts, require quarterly interest payments, bear interest at rates up to 10.0% per annum and mature on various dates through 2010.

Pursuant to the Equity Incentive Plan (EIP), Mr. Wirta purchased 30,000 shares of CBRE common stock in 2000 at a purchase price of \$12.875 per share that was paid for by the delivery of a full recourse promissory note bearing interest at 7.40%. As part of the 2001 Merger, the 30,000 shares of CBRE common stock were exchanged for 83,141 shares of our Class B common stock, which shares were substituted for the CBRE shares as security for the note. All interest charged on the outstanding promissory note balance for any year is forgiven if Mr. Wirta'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. Wirta's promissory note. As of December 31, 2003 and 2002, Mr. Wirta had an outstanding loan balance of \$385,950, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheets.

Pursuant to the EIP, Mr. White purchased 25,000 shares of CBRE common stock in 1998 at a purchase price of \$38.50 per share and 20,000 shares of CBRE common stock in 2000 at a purchase price of \$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 \$38.50 per share on November 16, 2002. Mr. White's promissory note was subsequently amended, terminating the First Amendment and adjusting the original 1998 Stock Purchase Agreement by reducing the purchase price from \$13.89 to \$5.77. During 2002, the 69,284 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 bears interest at 7.40%. As part of the 2001 Merger, the 20,000 shares of CBRE common stock purchased by Mr. White were exchanged for 55,427 shares of our common Class B common stock, which shares were substituted for CBRE shares as security for the note. All interest charged on the outstanding promissory note balances for any year is forgiven if Mr. White'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 promissory note. As of December 31, 2003 and 2002, Mr. White had an outstanding loan balance \$257,300, which is included in notes receivable from the sale of stock in the accompanying consolidated balance sheets.



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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2003 and 2002, Mr. White also had an outstanding loan balance of \$179,886 and \$164,832, respectively, which is included in notes receivable from the sale of stock in the accompanying consolidated balance sheets. This outstanding loan relates to the acquisition of 12,500 shares of CBRE's common stock prior to the 2001 Merger. Subsequent to the 2001 Merger, these shares were converted into 34,642 shares of our common stock and the related loan amount was carried forward. As amended, this loan accrues interest at 6.0%, and the principal and all accrued interest is payable on or before April 23, 2010. Mr. White repaid this loan in full on February 10, 2004.

At the time of the 2001 Merger, Mr. Wirta delivered to us an \$80,000 promissory note, which bore interest at 10% per year, as payment for the purchase of 13,857 shares of our Class B common stock. Mr. Wirta repaid this promissory note in full in April of 2002. Additionally, Mr. Wirta and Mr. White delivered full-recourse notes in the amounts of \$512,504 and \$209,734, respectively, as payment for a portion of the shares of Class A common stock purchased in connection with the 2001 Merger. These notes bear interest at 10% per year. During the year ended December 31, 2002, Mr. Wirta paid down his loan amount by \$40,004 and Mr. White paid off his note in its entirety. During the year ended December 31, 2003, Mr. Wirta paid down his loan amount by \$70,597. As of December 31, 2003 and 2002, Mr. Wirta has an outstanding loan balance of \$401,903 and \$472,500, respectively, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheets.

In the event that our common stock is not freely tradable on a national securities exchange or an over-the-counter market by May 30, 2004, we agreed in 2001 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 is employed by us at the time of exercise, was terminated without cause or resigned for good reason. This loan will become repayable upon the earliest to occur of the following: (1) 90 days following termination of his employment, other than without cause or by him for good reason, (2) seven months following the date our common stock becomes freely tradable as described above or (3) the receipt of proceeds from the sale of the pledged shares. This loan will bear interest at the prime rate in effect on the date of the loan, compounded annually, and will be repayable to the extent of any net proceeds received by Mr. Wirta upon sale of any shares of our common stock. Mr. Wirta is required to pledge the shares received upon exercise of the option as security for the loan.

**23. Subsequent Event**

On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness. In May 2004, we purchased \$20.1 in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of \$2.9 of premiums in connection with these purchases.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized Class A common shares to 325,000,000 and the authorized Class B common shares to 100,000,000. Additionally, 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 1, 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.

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On May 12, 2004, our wholly owned subsidiary, L.J. Melody & Company, modified its credit agreement with RFC to provide a temporary revolving line of credit increase of \$100.0 million that resulted in a total line of credit under the agreement equaling \$350.0 million. This increase will be effective on May 30, 2004 and expires 90 days after the effective date.

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**Table of Contents****CB RICHARD ELLIS GROUP, INC.****QUARTERLY RESULTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended December 31, 2003</b>	<b>Three Months Ended September 30, 2003</b>	<b>Three Months Ended June 30, 2003</b>	<b>Three Months Ended March 31, 2003</b>
	<b>(Dollars in thousands, except share data)</b>			
Revenue	\$ 621,257	\$ 423,376	\$ 321,717	\$ 263,724
Operating income (loss)	19,136	(22,676)	21,591	7,779
Net (loss) income	(10,084)	(28,445)	5,172	(1,347)
Basic EPS (1)	(0.16)	(0.49)	0.12	(0.03)
Weighted average shares outstanding for basic EPS (1)	62,532,166	57,486,405	41,683,699	41,651,415
Diluted EPS (1)	\$ (0.16)	\$ (0.49)	\$ 0.12	\$ (0.03)
Weighted average shares outstanding for diluted EPS (1)	62,532,166	57,486,405	42,523,893	41,651,415

(1) EPS is defined as earnings (loss) per share

	<b>Three Months Ended December 31, 2002</b>	<b>Three Months Ended September 30, 2002</b>	<b>Three Months Ended June 30, 2002</b>	<b>Three Months Ended March 31, 2002</b>
	<b>(Dollars in thousands, except share data)</b>			
Revenue	\$ 376,466	\$ 284,928	\$ 284,893	\$ 223,990
Operating income	49,264	18,384	27,624	1,464
Net income (loss)	15,097	1,881	7,289	(5,540)
Basic EPS (1)	0.36	0.05	0.17	(0.13)
Weighted average shares outstanding for basic EPS (1)	41,572,035	41,614,903	41,666,372	41,710,761
Diluted EPS (1)	\$ 0.36	\$ 0.05	\$ 0.17	\$ (0.13)
Weighted average shares outstanding for diluted EPS (1)	42,230,128	42,196,179	42,172,340	41,710,761

(1) EPS is defined as earnings (loss) per share



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## CB RICHARD ELLIS GROUP, INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	<u>CB Richard Ellis Group</u>
	Allowance
	For
	<u>Bad Debts</u>
Balance, February 20, 2001 (inception)	\$
Acquired in connection with the 2001 Merger	12,074
Charges to expense	1,317
Write-offs, payments and other	(1,643)
	<u>11,748</u>
Balance, December 31, 2001	11,748
Charges to expense	3,415
Write-offs, payments and other	(4,271)
	<u>10,892</u>
Balance, December 31, 2002	10,892
Acquired in connection with the Insignia Acquisition	5,061
Charges to expense	3,436
Write-offs, payments and other	(3,208)
	<u>16,181</u>
Balance, December 31, 2003	\$ 16,181

	<u>Predecessor Company</u>
	Allowance
	For
	<u>Bad Debts</u>
Balance, December 31, 2000	\$ 12,631
Charges to expense	3,387
Write-offs, payments and other	(3,944)
	<u>12,074</u>
Balance, July 20, 2001	\$ 12,074





**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEET***(In thousands, except share data)**(Unaudited)*

	<b>June 30, 2003</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 55,991
Receivables, net	137,566
Restricted cash	21,153
Property and equipment, net	42,140
Real estate investments, net	131,411
Goodwill	260,565
Acquired intangible assets, less accumulated amortization of \$56,025	4,684
Deferred taxes	62,086
Other assets, net	18,653
<b>Total assets</b>	<b>\$ 734,249</b>
<b>Liabilities and Stockholders Equity</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 8,999
Commissions payable	45,744
Accrued incentives	13,958
Accrued and sundry	92,886
Deferred taxes	23,396
Notes payable	56,785
Real estate mortgage notes	71,986
<b>Total liabilities</b>	<b>313,754</b>
<b>Stockholders Equity:</b>	
Common stock, par value \$.01 per share authorized 80,000,000 shares, 24,082,121 issued and outstanding shares, net of 1,502,600 shares held in treasury	241
Preferred stock, par value \$.01 per share authorized 20,000,000 shares, Series A, 250,000 and Series B, 125,000 issued and outstanding shares	4
Additional paid-in capital	443,101
Notes receivable for common stock	(1,006)
Accumulated deficit	(24,104)
Accumulated other comprehensive income	2,259
<b>Total stockholders equity</b>	<b>420,495</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 734,249</b>

See Notes to Condensed Consolidated Financial Statements.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(In thousands)**(Unaudited)*

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Revenues</b>		
Real estate services	\$ 281,280	\$ 255,446
Property operations	4,326	4,550
Equity (loss) earnings in unconsolidated ventures	(3,318)	3,259
	<u>282,288</u>	<u>263,255</u>
<b>Costs and expenses</b>		
Real estate services	271,908	239,960
Property operations	3,664	3,165
Administrative	10,192	6,583
Depreciation	6,971	6,744
Property depreciation	753	1,058
Amortization of intangibles	1,222	2,735
	<u>294,710</u>	<u>260,245</u>
Operating (loss) income	(12,422)	3,010
<b>Other income and expenses:</b>		
Interest income	1,646	2,081
Other income	29	13
Interest expense	(3,293)	(4,338)
Property interest expense	(841)	(951)
	<u>(4,659)</u>	<u>(3,185)</u>
Loss from continuing operations before income taxes	(14,881)	(185)
Income tax benefit	5,208	83
	<u>(9,673)</u>	<u>(102)</u>
Loss from continuing operations	(9,673)	(102)
Discontinued operations, net of applicable taxes:		
(Loss) income from operations	(360)	2,869
Income on disposal	3,763	265
	<u>3,403</u>	<u>2,869</u>
(Loss) income before cumulative effect of a change in accounting principle	(6,270)	3,032
Cumulative effect of a change in accounting principle, net of applicable taxes		(20,635)
	<u>(6,270)</u>	<u>(17,603)</u>
Net loss	(6,270)	(17,603)

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Preferred stock dividends	(1,594)	(573)
Net loss available to common shareholders	\$ (7,864)	\$ (18,176)

See Notes to Condensed Consolidated Financial Statements.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)**(Unaudited)*

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Operating activities</b>		
Loss from continuing operations	\$ (9,673)	\$ (102)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	8,946	10,537
Equity loss (earnings) in unconsolidated ventures	3,318	(3,259)
Changes in operating assets and liabilities:		
Accounts receivable	16,441	36,386
Other assets	(7,752)	3,158
Accrued incentives	(35,339)	(44,039)
Accounts payable and accrued expenses	(9,136)	(23,526)
Commissions payable	(17,543)	(33,747)
<b>Net cash used in operating activities</b>	<b>(50,738)</b>	<b>(54,592)</b>
<b>Investing activities</b>		
Additions to property and equipment, net	(4,982)	(2,197)
Proceeds from real estate investments	4,154	30,940
Payments made for acquisitions of businesses	(4,071)	(6,155)
Proceeds from sale of discontinued operations	66,750	23,250
Investment in real estate	(4,732)	(4,897)
Decrease in restricted cash	365	2,941
<b>Net cash provided by investing activities</b>	<b>57,484</b>	<b>43,882</b>
<b>Financing activities</b>		
Proceeds from issuance of common stock	5,488	1,127
Proceeds from issuance of preferred stock, net		12,325
Preferred stock dividends	(1,593)	(633)
Payment on notes payable	(70,104)	(36,722)
Payments on real estate mortgage notes		(20,915)
Proceeds from real estate mortgage notes	5,191	
Debt issuance costs		(866)
<b>Net cash used in financing activities</b>	<b>(61,018)</b>	<b>(45,684)</b>
<b>Net cash (used in) provided by discontinued operations</b>	<b>(3,002)</b>	<b>5,209</b>
Effect of exchange rate changes on cash	1,818	1,641

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Net decrease in cash and cash equivalents	(55,456)	(49,544)
Cash and cash equivalents at beginning of period	111,447	131,770
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 55,991	\$ 82,226
	<u>          </u>	<u>          </u>

See Notes to Condensed Consolidated Financial Statements.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**1. Business**

Insignia Financial Group, Inc. ( Insignia or the Company ), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, United Kingdom, France, continental Europe, Asia and Latin America. Insignia's real estate service businesses offer a diversified array of services including commercial leasing, sales brokerage, corporate real estate consulting, property management, property development, re-development and real estate oriented financial services. In addition to traditional real estate services, Insignia has historically deployed its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds. The Company's real estate service operations and real estate investments are more fully described below.

Insignia's primary real estate service businesses include the following: Insignia/ESG (United States, commercial real estate services), Insignia Richard Ellis (United Kingdom, commercial real estate services) and Insignia Bourdais (France, commercial real estate services; acquired in December 2001). Insignia also offers commercial real estate services throughout continental Europe, Asia and Latin America. Insignia's other businesses in continental Europe include operations in Germany, Italy, Spain, Holland and Belgium. Insignia's New York-based residential businesses Insignia Douglas Elliman and Insignia Residential Group were sold on March 14, 2003 (see further discussion under the caption Discontinued Operations in Note 6).

**2. Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

**3. Reclassifications**

Certain amounts for the prior year have been reclassified to conform to the 2003 presentation. These reclassifications have no effect on reported net loss.

#### 4. Seasonality

The Company's revenues are substantially derived from tenant representation, agency leasing, investment sales and consulting services. Revenues generated by these services are transactional in nature and therefore affected by seasonality, availability of space, competition in the market place and changes in business and capital market conditions. A significant portion of the expenses associated with these transactional activities are directly correlated to revenue. Also, certain conditions to revenue recognition for leasing commissions are outside of the Company's control.

Consistent with the industry in general, the Company's revenues and operating income have historically been lower during the first three calendar quarters than in the fourth quarter. The reasons for the concentration of earnings in the fourth quarter include a general, industry-wide focus on completing transactions by calendar year.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

end, as well as the constant nature of the Company's non-variable expenses throughout the year versus the seasonality of its revenues. This phenomenon has generally produced a historical pattern of higher revenues and income in the last half of the year and a gradual slowdown in transactional activity and corresponding operating results during the first quarter. This tendency notwithstanding, it is possible that any fourth quarter may not be the best performing quarter of a particular year. Insignia's quarterly earnings are also susceptible to the potential adverse effects of unforeseen market disruptions like that of the third quarter of 2001 caused by the events of September 11. Consequently, future revenue production and earnings may be difficult to predict and comparisons from period to period may be difficult to interpret.

**5. Foreign Currency**

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generated approximately 30% of the Company's service revenues for the six months ended June 30, 2003. Revenues and expenses of all foreign subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of stockholders' equity in accumulated other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income.

For the six months ended June 30, 2003, European operations were translated to U.S. dollars at average exchange rates of \$1.61 to the British pound and \$1.10 to the euro. The assets and liabilities of the Company's European operations have been translated at exchange rates of \$1.65 to the British pound and \$1.14 to the euro at June 30, 2003.

**6. Discontinued Operations**

On March 14, 2003, Insignia completed the sale of its New York-based residential businesses, Insignia Residential Group and Insignia Douglas Elliman, to Montauk Battery Realty. Montauk Battery Realty is located on Long Island, New York and its principal owners are New Valley Corp. and Dorothy Herman, chief executive officer of Prudential Long Island Realty. The total purchase price of \$71.75 million was paid or is payable as follows: (i) \$66.75 million paid in cash to Insignia at the closing of the transaction; (ii) \$500,000 in cash held in escrow on the closing date and up to another \$500,000 held in escrow pending receipt of specified commissions; and (iii) the assumption by the buyer of up to \$4.0 million in existing contingent earn-out payment obligations of Insignia Douglas Elliman. The escrowed amounts are available to secure Insignia's indemnity obligations under the purchase and sale agreement. Any amounts remaining in escrow on March 14, 2004 and not securing previously made indemnity claims will be released to Insignia.

Insignia Douglas Elliman, acquired by Insignia in June 1999, provides sales and rental services in the New York City residential cooperative, condominium and rental apartment market and also operates in upscale suburban markets in Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Insignia Residential Group is the largest manager of cooperative, condominium and rental apartments in the New

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York metropolitan area, providing full service third-party fee management for more than 250 properties, comprising approximately 60,000 residential units. These residential businesses collectively produced service revenues in 2002 and 2001 of \$133.7 million and \$119.2 million, respectively.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

During the six months ended June 30, 2003, Insignia recognized a net gain of approximately \$3.8 million (net of \$4.7 million of applicable income taxes) in connection with the sale of its residential businesses. These businesses also generated an operating loss of \$360,000 on revenues of \$20.5 million during the 2003 period. The gain on sale and operating loss are reported as discontinued operations for financial reporting purposes. During the first quarter of 2002, Insignia recognized income on disposal of \$265,000 (net of applicable taxes of \$1.8 million) related to the sale of Realty One, the Company's former single-family home brokerage business.

The following tables summarize the aggregate assets and liabilities of Insignia Douglas Elliman and Insignia Residential Group at December 31, 2002 and the results of operations and income on disposal attributed to Insignia Douglas Elliman (2003), Insignia Residential Group (2003) and Realty One (2002) during the six months ended June 30, 2003 and 2002, respectively.

	<b>December 31,</b>
	<b>2002</b>
	<u>                    </u>
	<i>(In thousands)</i>
<b>Assets</b>	
Cash and cash equivalents	\$ 66
Receivables	2,479
Property and equipment	11,766
Goodwill	34,117
Acquired intangible assets	11,999
Deferred taxes	3,365
Other assets	2,177
	<u>                    </u>
Assets of discontinued operations	65,969
	<u>                    </u>
<b>Liabilities</b>	
Accounts payable	2,535
Commissions payable	564
Accrued incentives	3,027
Accrued and sundry liabilities	3,256
Deferred taxes	789
	<u>                    </u>
Liabilities of discontinued operations	10,171
	<u>                    </u>
Net assets	\$ 55,798
	<u>                    </u>

**Six Months Ended****June 30,**

<u>2003</u>	<u>2002</u>
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	<u>          </u>	<u>          </u>
	<i>(In thousands)</i>	
Revenues	\$ 20,517	\$ 69,009
	<u>          </u>	<u>          </u>
(Loss) income from operations, net of tax benefit of \$248 (2003) and tax expense of \$2,347 (2002)	(360)	2,869
Income on disposal, net of tax expense of \$4,741 (2003) and \$1,809 (2002)	3,763	265
	<u>          </u>	<u>          </u>
Net income	\$ 3,403	\$ 3,134
	<u>          </u>	<u>          </u>

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## INSIGNIA FINANCIAL GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. Goodwill and Intangible Assets

The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2002 to June 30, 2003.

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
		<i>(In thousands)</i>	
<b>Balance as of December 31, 2002</b>	\$ 255,444	\$ 34,117	\$ 289,561
Adjustment for discontinued operations		(34,117)	(34,117)
	255,444		255,444
Other adjustments to purchase consideration	(877)		(877)
Foreign currency translation	5,998		5,998
<b>Balance as of June 30, 2003</b>	<b>\$ 260,565</b>	<b>\$</b>	<b>\$ 260,565</b>

The following tables present certain information on the Company's acquired intangible assets as of June 30, 2003.

<u>Acquired Intangible Assets</u>	<u>Weighted</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Net Balance</u>
	<u>Average</u>			
	<u>Amortization</u>	<u>Carrying</u>	<u>Amortization</u>	
	<u>Period</u>	<u>Amount</u>	<u>Amortization</u>	
<b>As of June 30, 2003</b>			<i>(In thousands)</i>	
Property management contracts	5 years	\$ 52,679	\$ 51,895	\$ 784
Favorable premises leases	11 years	2,666	257	2,409
Other	3 years	5,364	3,873	1,491
<b>Total</b>		<b>\$ 60,709</b>	<b>\$ 56,025</b>	<b>\$ 4,684</b>

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in Other consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate acquired intangible amortization expense for the six months ended June 30, 2003 and 2002 totaled \$1.2 million and \$2.7 million, respectively. The decline in amortization expense in 2003 is attributed to property management contracts and customer backlog that were fully amortized in 2002.

## 8. Real Estate Investments

Insignia has historically invested in real estate assets and real estate debt securities. Insignia has engaged in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its own behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt.

At June 30, 2003, the Company's real estate investments totaled \$131.4 million, consisting of the following: (i) \$19.3 million in minority-owned operating properties; (ii) \$87.2 million of real estate carrying value attributed to three real estate investment entities consolidated by Insignia for financial reporting purposes; (iii) \$8.1 million in four minority owned office development properties; (iv) \$1.7 million in a land parcel held for development;

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

and (v) \$15.1 million in minority-owned private investment funds owning debt securities. The properties owned by the consolidated investment entities are subject to mortgage debt of \$72.0 million and Insignia's investment in the properties totaled \$22.3 million at June 30, 2003. Insignia's investment in consolidated properties includes \$19.2 million invested in a marina-based development property in the U.S. Virgin Islands. Insignia's minority-owned investments in operating real estate assets include office, retail, industrial, apartment and hotel properties. At June 30, 2003, these real estate assets consisted of over 5.8 million square feet of commercial property and 1,967 multi-family apartment units and hotel rooms. The Company's minority ownership interests in co-investment property range from 1% to 33%.

Gains realized from sales of real estate by minority owned entities for the six months ended June 30, 2003 and 2002 totaled \$734,000 and \$1.6 million, respectively. During the six months ended June 30, 2003, the Company recorded impairment against its real estate investments of \$3.9 million on five property assets. The Company evaluates its real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset's carrying amount. The impairments were based on changes in factors including increased vacancies, lower market rental rates and decreased projections of operating cash flows which diminished prospects for recovery of the Company's full investment upon final disposition. The gains realized from real estate sales and the losses taken on impairments are included in the caption "equity (loss) earnings in unconsolidated ventures" in the Company's condensed consolidated statements of operations.

The Company's only financial obligations with respect to its real estate investments, beyond its investment, are (i) partial construction financing guarantees, backed by letters of credit, totaling \$8.9 million; (ii) other letters of credit and guarantees of property debt totaling \$2.8 million; and (iii) future capital commitments for capital improvements and additional asset purchases totaling \$2.3 million.

**9. Debt**

At June 30, 2003, Insignia's debt consisted of the following:

	<b>June 30, 2003</b>
	<u>                    </u>
	<i>(In thousands)</i>
<b>Notes Payable</b>	
Senior revolving credit facility	\$ 28,000
Subordinated credit facility	15,000
Acquisition loan notes	13,785
	<u>                    </u>
	56,785
	<u>                    </u>
<b>Real Estate Mortgage Notes</b>	71,986

<b>Total</b>	<b>\$ 128,771</b>
--------------	-------------------

The Company's debt includes borrowings under its \$165.0 million senior revolving credit facility (as amended), borrowings under a \$37.5 million subordinated credit facility entered into in June 2002, acquisition loan notes issued in connection with previous acquisitions in the United Kingdom and real estate mortgage notes collateralized by real estate properties.

The senior credit facility bears interest at a margin above LIBOR, which was 2.0% at June 30, 2003. In March 2003, Insignia repaid \$67.0 million on the senior revolving credit facility as a result of the March 14, 2003



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

sale of its residential businesses, lowering its outstanding balance to \$28.0 million. In conjunction with the pay-down, the commitment under the senior credit facility was reduced from \$230.0 million to \$165.0 million. The senior revolving credit facility matures in May 2004. The subordinated credit facility borrowings, which are subordinate to Insignia's senior credit facility, bear interest at an annual rate of 11.25%, payable quarterly. Insignia may borrow the remaining \$22.5 million available under this credit facility through the period ending in December 2003. The subordinated debt matures in June 2009. The acquisition loan notes are payable to sellers of the acquired U.K. businesses and are backed by restricted cash deposits in approximately the same amount. The loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. The real estate mortgage notes are secured by property assets owned by consolidated subsidiaries. Maturities on the real estate mortgage notes range from December 2004 to October 2023.

**10. Comprehensive Income (Loss)**

The following table presents a calculation of comprehensive income (loss) for the periods indicated.

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
	<i>(In thousands)</i>	
<b>Net loss</b>	\$ (6,270)	\$ (17,603)
Other comprehensive income (loss):		
Foreign currency translation	7,354	5,967
Reclassification adjustment for realized gain		(50)
Minimum pension liability		(61)
<b>Total other comprehensive income (loss)</b>	<b>7,354</b>	<b>5,856</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 1,084</b>	<b>\$ (11,747)</b>

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****11. Industry Segment Data**

In 2003, Insignia's operating activities from continuing operations encompass only one reportable segment, commercial real estate services. The Company's residential real estate service businesses were disposed of in the first quarter of 2003 and are reported as discontinued operations. The Company's commercial service businesses offer similar products and services and are managed collectively because of the similarities between such services. These businesses provide services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other real estate financial services. Insignia's commercial businesses include Insignia/ESG in the United States, Insignia Richard Ellis in the United Kingdom, Insignia Bourdais in France and other businesses in continental Europe, Asia and Latin America. The following table summarizes certain geographic financial information for the periods indicated.

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
	<i>(In thousands)</i>	
<b>Total Revenues</b>		
United States	\$ 194,341	\$ 187,644
United Kingdom	54,462	49,939
France	22,032	18,082
Other Europe	7,468	4,866
Asia and Latin America	3,985	2,724
	<b>\$ 282,288</b>	<b>\$ 263,255</b>
<b>Long-Lived Assets</b>		
United States	\$ 277,262	\$ 261,741
United Kingdom	120,334	112,138
France	31,794	25,013
Other Europe	8,471	5,637
Asia and Latin America	939	773
	<b>\$ 438,800</b>	<b>\$ 405,302</b>

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangible assets.

**12. Contingencies**

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies, including unasserted claims or assessments, which are probable and the amount of loss can be reasonably estimated are accrued in accordance with Statement of Accounting Standards ( SFAS ) No. 5, *Accounting for Contingencies*.

### **13. CB Richard Ellis Merger and Related Transactions**

On February 17, 2003, Insignia entered into an Agreement and Plan of Merger with CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. ( CB ) and Apple Acquisition Corp., a wholly owned subsidiary of CB, pursuant to which, upon the terms and subject to the conditions set forth therein, including the approval of Insignia s stockholders, Apple Acquisition Corp. would be merged with and into Insignia (the Merger ), with

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Insignia being the surviving corporation in the Merger and becoming a wholly owned subsidiary of CB. The Merger closed on July 23, 2003 and Insignia's common shareholders received cash consideration of \$11.156 per share. Insignia incurred approximately \$4.9 million of expenses for legal and other services in connection with the Merger during the first six months of 2003. Such expenses are included in administrative expenses in the Company's statement of operations for the six months ended June 30, 2003.

Separately, on July 23, 2003, Insignia sold substantially all of its real estate investment assets to Island Fund I LLC prior to the closing of the Merger. The purchase price in the sale aggregated \$44.8 million and included \$36.9 million paid in cash to Insignia at closing and the assumption by the buyer of \$7.9 million in contractual obligations to certain executive officers, including the Company's Chairman, who are also officers of Island Fund. The Company recognized a loss of approximately \$12.8 million (before income tax effects) in connection with the sale.

**14. Supplemental Information**

The following supplemental information includes: (i) condensed consolidating balance sheet as of June 30, 2003; and (ii) condensed consolidating statements of operations and cash flows for the six months ended June 30, 2003 and 2002, respectively, of the Company's domestic commercial service operations (including operations of Insignia/ESG, Inc. and unallocated administrative expenses and corporate assets of Insignia), all other operations (comprised of international service operations and real estate investment operations) and the Company on a consolidated basis. Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and intercompany balances and transactions.

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Condensed Consolidating Balance Sheet****June 30, 2003**

	<b>Domestic Commercial Service</b>	<b>Other</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	<b>Operations</b>	<b>Operations</b>	<b>Eliminations</b>	<b>Total</b>
	<i>(In thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 38,386	\$ 17,605	\$	\$ 55,991
Receivables, net	98,651	38,915		137,566
Restricted cash	14,300	6,853		21,153
Intercompany receivables	43,978		(43,978)	
Investment in consolidated subsidiaries	129,895		(129,895)	
Property and equipment, net	32,220	9,920		42,140
Real estate investments, net		131,411		131,411
Goodwill	112,662	147,903		260,565
Acquired intangible assets, net	426	4,258		4,684
Deferred taxes	54,501	7,585		62,086
Other assets, net	8,160	10,493		18,653
<b>Total assets</b>	<b>\$ 533,179</b>	<b>\$ 374,943</b>	<b>\$ (173,873)</b>	<b>\$ 734,249</b>
<b>Liabilities and Stockholders Equity</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 6,288	\$ 2,711	\$	\$ 8,999
Commissions payable	43,548	2,196		45,744
Accrued incentives	10,704	3,254		13,958
Accrued and sundry	44,707	48,179		92,886
Deferred taxes	21,182	2,214		23,396
Intercompany payables		43,978	(43,978)	
Notes payable	56,785			56,785
Real estate mortgage notes		71,986		71,986
<b>Total liabilities</b>	<b>183,214</b>	<b>174,518</b>	<b>(43,978)</b>	<b>313,754</b>
<b>Total stockholders equity</b>	<b>349,965</b>	<b>200,425</b>	<b>(129,895)</b>	<b>420,495</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 533,179</b>	<b>\$ 374,943</b>	<b>\$ (173,873)</b>	<b>\$ 734,249</b>



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Condensed Consolidating Statement of Operations****For the Six Months Ended June 30, 2003**

	Domestic Commercial Service	Other	Eliminations	Consolidated Total
	Operations	Operations	Eliminations	Total
	<i>(In thousands)</i>			
<b>Revenues</b>	\$ 193,333	\$ 88,955	\$	\$ 282,288
<b>Costs and expenses</b>				
Real estate services	187,672	84,236		271,908
Property operations		3,664		3,664
Administrative	10,192			10,192
Depreciation and amortization	6,271	1,922		8,193
Property depreciation		753		753
	204,135	90,575		294,710
Operating loss	(10,802)	(1,620)		(12,422)
<b>Other income and expenses:</b>				
Interest income	593	1,053		1,646
Other income (expense)	41	(12)		29
Interest expense	(3,081)	(212)		(3,293)
Property interest expense		(841)		(841)
Equity earnings in consolidated subsidiaries	2,211		(2,211)	
Loss from continuing operations before income taxes	(11,038)	(1,632)	(2,211)	(14,881)
Income tax benefit	4,768	440		5,208
Loss from continuing operations	(6,270)	(1,192)	(2,211)	(9,673)
Discontinued operations, net of applicable taxes:				
Loss from operations		(360)		(360)
Income on disposal		3,763		3,763
Net loss	\$ (6,270)	\$ 2,211	\$ (2,211)	\$ (6,270)

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## INSIGNIA FINANCIAL GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2002

	Domestic Commercial Service	Other	Eliminations	Consolidated Total
	Operations	Operations	Eliminations	Total
	<i>(In thousands)</i>			
<b>Revenues</b>	\$ 179,835	\$ 83,420	\$	\$ 263,255
<b>Costs and expenses</b>				
Real estate services	171,590	68,370		239,960
Property operations		3,165		3,165
Administrative	6,583			6,583
Depreciation and amortization	7,585	1,894		9,479
Property depreciation		1,058		1,058
	185,758	74,487		260,245
Operating (loss) income	(5,923)	8,933		3,010
<b>Other income and expenses:</b>				
Interest income	946	1,135		2,081
Other income (expense)	53	(40)		13
Interest expense	(4,060)	(278)		(4,338)
Property interest expense		(951)		(951)
Equity losses in consolidated subsidiaries	(12,213)		12,213	
(Loss) income from continuing operations before income taxes	(21,197)	8,799	12,213	(185)
Income tax benefit (expense)	3,594	(3,511)		83
(Loss) income from continuing operations	(17,603)	5,288	12,213	(102)
Discontinued operations, net of applicable taxes:				
Income from operations		2,869		2,869
Income on disposal		265		265
Income (loss) before cumulative effect of a change in accounting principle	(17,603)	8,422	12,213	3,032
Cumulative effect of a change in accounting principle, net of applicable taxes		(20,635)		(20,635)
<b>Net loss</b>	<b>\$ (17,603)</b>	<b>\$ (12,213)</b>	<b>\$ 12,213</b>	<b>\$ (17,603)</b>





**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Condensed Consolidating Statement of Cash Flows****For the Six Months Ended June 30, 2003**

	<b>Domestic Commercial Service Operations</b>	<b>Other Operations</b>	<b>Consolidated Total</b>
	<i>(In thousands)</i>		
Net cash used in operating activities	\$ (22,851)	\$ (27,887)	\$ (50,738)
<b>Investing activities</b>			
Additions to property and equipment, net	(1,294)	(3,688)	(4,982)
Proceeds from real estate investments		4,154	4,154
Payments made for acquisitions of businesses		(4,071)	(4,071)
Proceeds from sale of discontinued operation		66,750	66,750
Investment in real estate		(4,732)	(4,732)
Decrease (increase) in restricted cash	2,977	(2,612)	365
Net cash provided by investing activities	1,683	55,801	57,484
<b>Financing activities</b>			
Decrease (increase) in intercompany receivables, net	53,518	(53,518)	
Proceeds from issuance of common stock	5,488		5,488
Preferred stock dividends	(1,593)		(1,593)
Payments on notes payable	(70,104)		(70,104)
Proceeds from real estate mortgage notes		5,191	5,191
Net cash used in financing activities	(12,691)	(48,327)	(61,018)
Net cash used in discontinued operations		(3,002)	(3,002)
Effect of exchange rate changes on cash		1,818	1,818
Net decrease in cash and cash equivalents	(33,859)	(21,597)	(55,456)
Cash and cash equivalents at beginning of period	72,245	39,202	111,447
Cash and cash equivalents at end of period	\$ 38,386	\$ 17,605	\$ 55,991

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Condensed Consolidating Statement of Cash Flows****For the Six Months Ended June 30, 2002**

	<b>Domestic Commercial Service Operations</b>	<b>Other Operations</b>	<b>Consolidated Total</b>
		<i>(In thousands)</i>	
Net cash (used in) provided by operating activities	\$ (63,181)	\$ 8,589	\$ (54,592)
<b>Investing activities</b>			
Additions to property and equipment, net	(1,878)	(319)	(2,197)
Proceeds from real estate investments		30,940	30,940
Payments made for acquisitions of businesses	(804)	(5,351)	(6,155)
Proceeds from sale of discontinued operation		23,250	23,250
Investment in real estate		(4,897)	(4,897)
Decrease (increase) in restricted cash	3,932	(991)	2,941
Net cash provided by investing activities	1,250	42,632	43,882
<b>Financing activities</b>			
Decrease (increase) in intercompany receivables, net	35,275	(35,275)	
Proceeds from issuance of common stock	1,127		1,127
Proceeds from issuance of preferred stock, net	12,325		12,325
Preferred stock dividends	(633)		(633)
Payments on notes payable	(36,722)		(36,722)
Payments on real estate mortgage notes		(20,915)	(20,915)
Debt issuance costs	(866)		(866)
Net cash provided by (used in) financing activities	10,506	(56,190)	(45,684)
Net cash provided by discontinued operations		5,209	5,209
Effect of exchange rate changes on cash		1,641	1,641
Net (decrease) increase in cash and cash equivalents	(51,425)	1,881	(49,544)
Cash and cash equivalents at beginning of period	106,954	24,816	131,770
Cash and cash equivalents at end of period	\$ 55,529	\$ 26,697	\$ 82,226

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**INDEPENDENT AUDITORS REPORT**

The Stockholders

Insignia Financial Group, Inc.:

We have audited the accompanying consolidated balance sheet of Insignia Financial Group, Inc. and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Insignia Financial Group, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, and the provisions of Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets effective January 1, 2002.

/S/ KPMG LLP

New York, New York

October 15, 2003

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**REPORT OF INDEPENDENT AUDITORS**

Board of Directors

Insignia Financial Group, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations, changes in stockholders' equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/S/ ERNST & YOUNG LLP

New York, New York

February 8, 2002, except Notes 3, 4, 5, 15 and 19,

as to which the date is October 15, 2003

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2002</b>
	<b>(In thousands)</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 111,513
Receivables, net of allowance of \$6,684	155,321
Restricted cash	21,518
Property and equipment, net	55,614
Real estate investments, net	134,135
Goodwill	289,561
Acquired intangible assets, less accumulated amortization of \$65,276	17,611
Deferred taxes	47,609
Other assets, net	39,957
Assets of discontinued operation	
<b>Total assets</b>	<b>\$ 872,839</b>
<b>Liabilities and Stockholders Equity</b>	
Liabilities:	
Accounts payable	\$ 13,743
Commissions payable	63,974
Accrued incentives	52,324
Accrued and sundry	117,990
Deferred taxes	15,795
Notes payable	126,889
Real estate mortgage notes	66,795
Liabilities of discontinued operation	
<b>Total liabilities</b>	<b>457,510</b>
Stockholders Equity:	
Preferred stock, par value \$.01 per share authorized 20,000,000 shares, Series A, 250,000 and Series B, 125,000 issued and outstanding shares	4
Common Stock, par value \$.01 per share authorized 80,000,000 shares 23,248,242 issued and outstanding shares, net of 1,502,600 shares held in treasury	232
Additional paid-in capital	437,622
Notes receivable for common stock	(1,193)
Accumulated deficit	(16,241)
Accumulated other comprehensive loss	(5,095)
<b>Total stockholders equity</b>	<b>415,329</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 872,839</b>

See accompanying notes to the consolidated financial statements.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended	
	December 31	
	2002	2001
	(In thousands)	
<b>Revenues</b>		
Real estate services	\$ 577,544	\$ 613,253
Property operations	9,195	3,969
Equity earnings in unconsolidated ventures	3,482	13,911
Other income, net	793	2,096
	<u>591,014</u>	<u>633,229</u>
<b>Costs and expenses</b>		
Real estate services	526,076	554,744
Property operations	7,264	1,145
Administrative	14,344	13,439
Depreciation	13,915	12,509
Property depreciation	1,920	990
Amortization of intangibles	4,406	20,344
	<u>567,925</u>	<u>603,171</u>
Operating income	23,089	30,058
<b>Other income and expenses:</b>		
Interest income	3,936	4,853
Interest expense	(8,854)	(12,369)
Property interest expense	(2,122)	(1,744)
Losses from internet investments, net		(10,263)
Other expense		(661)
	<u>16,049</u>	<u>9,874</u>
Income from continuing operations before income taxes	16,049	9,874
Income tax expense	(7,012)	(3,522)
	<u>9,037</u>	<u>6,352</u>
Income from continuing operations	9,037	6,352
Discontinued operations, net of applicable tax		
Income (loss) from operations	4,180	(2,231)
Income (loss) on disposal	4,918	(17,629)
	<u>9,098</u>	<u>(19,860)</u>
Income (loss) before cumulative effect of a change in accounting principle	18,135	(13,508)
Cumulative effect of a change in accounting principle, net of applicable taxes	(20,635)	



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Net loss	(2,500)	(13,508)
Preferred stock dividends	(2,173)	(1,000)
	<u>          </u>	<u>          </u>
Net loss available to common shareholders	\$ (4,673)	\$ (14,508)
	<u>          </u>	<u>          </u>

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)**

	Years Ended December 31	
	2002	2001
	(In thousands, except per share data)	
<b>Per share amounts:</b>		
Earnings per common share basic		
Income from continuing operations	\$ 0.30	\$ 0.24
Income (loss) from discontinued operations	0.39	(0.90)
	<u>0.69</u>	<u>(0.66)</u>
Income (loss) before cumulative effect of a change in accounting principle	0.69	(0.66)
Cumulative effect of a change in accounting principle	(0.89)	
	<u>0.69</u>	<u>(0.66)</u>
Net loss	\$ (0.20)	\$ (0.66)
	<u>(0.20)</u>	<u>(0.66)</u>
<b>Earnings per common share assuming dilution:</b>		
Income from continuing operations	\$ 0.29	\$ 0.23
Income (loss) from discontinued operations	0.38	(0.85)
	<u>0.67</u>	<u>(0.62)</u>
Income (loss) before cumulative effect of a change in accounting principle	0.67	(0.62)
Cumulative effect of a change in accounting principle	(0.87)	
	<u>0.67</u>	<u>(0.62)</u>
Net loss	\$ (0.20)	\$ (0.62)
	<u>(0.20)</u>	<u>(0.62)</u>
<b>Weighted average common shares and assumed conversions:</b>		
Basic	23,122	22,056
	<u>23,122</u>	<u>22,056</u>
Assuming dilution	23,691	23,398
	<u>23,691</u>	<u>23,398</u>

See accompanying notes to the consolidated financial statements.

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

			Additional Paid-in Capital	Notes Receivable for Common Stock	Accumulated		Comprehensive Loss	Comprehensive Loss	Total
	Common Stock	Preferred Stock			Accumulated Deficit	Other			
(In thousands, except share data)									
Balances at December 31, 2000	\$ 216	\$ 3	\$ 413,831	\$ (2,051)	\$ 2,846	\$ (5,964)			\$ 408,881
Net loss					(13,508)			\$ (13,508)	(13,508)
Other comprehensive income (loss):									
Foreign currency translation, net of tax benefit of \$1,769						(2,033)		(2,033)	(2,033)
Unrealized gain on securities, net of tax of \$7						7		7	7
Minimum pension liability, net of tax benefit of \$696						(900)		(900)	(900)
<b>Total comprehensive loss</b>								<b>\$ (16,434)</b>	
Exercise of stock options and warrants 381,241 shares of Common Stock issued	4		2,139						2,143
Issuance of 159,520 shares of Common Stock under Employee Stock Purchase Program	2		1,470						1,472
Issuance of 402,645 shares of Common Stock in connection with Insignia Bourdais acquisition	4		3,995						3,999
Restricted stock awards 30,330 shares of Common Stock issued			627						627
Restricted stock 279,370 shares issued	3		(3)						
Preferred stock dividend 25,000 shares of Common Stock issued			250		(1,250)				(1,000)
Payments on notes receivable for shares of Common Stock				169					169
<b>Balances at December 31, 2001</b>	<b>\$ 229</b>	<b>\$ 3</b>	<b>\$ 422,309</b>	<b>\$ (1,882)</b>	<b>\$ (11,912)</b>	<b>\$ (8,890)</b>			<b>\$ 399,857</b>

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (CONTINUED)**

			Notes		Accumulated			
			Receivable		Other			
	Common	Preferred	Additional	for	Accumulated	Comprehensive	Comprehensive	Total
	Stock	Stock	Paid-in	Common	Deficit	Loss	(Loss)	
			Capital	Stock			Income	
(In thousands, except share data)								
Balance at December 31, 2001 (from previous page)	\$ 229	\$ 3	\$ 422,309	\$ (1,882)	\$ (11,912)	\$ (8,890)		\$ 399,857
Net loss					(2,500)		\$ (2,500)	(2,500)
Other comprehensive income (loss)								
Foreign currency translation, net of tax of \$6,215						12,383	12,383	12,383
Reclassification adjustment for realized gain, net of tax of \$39						(50)	(50)	(50)
Unrealized gain on securities, net of tax of \$752						1,128	1,128	1,128
Minimum pension liability, net of tax benefit of \$3,832						(9,666)	(9,666)	(9,666)
Total comprehensive income							\$ 1,295	
Exercise of stock options and warrants 113,519 shares of Common Stock issued	1		673					674
Issuance of 111,840 shares of Common Stock under Employee Stock Purchase Program	1		902					903
Issuance of 131,480 shares of Common Stock in connection with Insignia Bourdais acquisition	1		1,305					1,306
Restricted stock awards 87,155 shares of Common Stock issued	1		706					707
Preferred stock issuance 125,000 shares		1	12,269					12,270
Preferred stock dividend					(1,829)			(1,829)
Cancellation of notes receivable for 47,786 shares of Common Stock	(1)		(542)	543				
Payments on notes receivable for shares of Common Stock				146				146
Balance at December 31, 2002	\$ 232	\$ 4	\$ 437,622	\$ (1,193)	\$ (16,241)	\$ (5,095)		\$ 415,329

See accompanying notes to consolidated financial statements.



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended	
	December 31	
	2002	2001
	(In thousands)	
<b>Operating activities</b>		
Income from continuing operations	\$ 9,037	\$ 6,352
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	20,241	33,843
Other expenses		661
Equity earnings in real estate ventures	(3,482)	(10,381)
Gain on sale of consolidated real estate property	(1,306)	
Foreign currency transaction gains		(331)
Losses from internet investments		10,263
Deferred income taxes	(644)	(2,754)
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Receivables	24,184	23,486
Other assets	(9,610)	5,656
Accrued incentives	(16,002)	(22,194)
Accounts payable and accrued expenses	1,157	(34,344)
Commissions payable	(21,893)	18,616
<b>Cash provided by operating activities</b>	<b>1,682</b>	<b>28,873</b>
<b>Investing activities</b>		
Additions to property and equipment	(8,388)	(11,789)
Investment in internet-based businesses		(4,010)
Distribution proceeds from real estate investments	44,648	63,787
Proceeds from sale of discontinued operations	23,250	
Payments made for acquisition of businesses, net of acquired cash	(8,918)	(18,983)
Investments in real estate	(46,684)	(33,905)
Decrease (increase) in restricted cash	3,964	(14,879)
<b>Cash provided by (used in) investing activities</b>	<b>\$ 7,872</b>	<b>\$ (19,779)</b>

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

	Years Ended	
	December 31	
	2002	2001
	(In thousands)	
<b>Financing activities</b>		
Proceeds from issuance of common stock	\$ 903	\$ 1,472
Proceeds from issuance of preferred stock	12,270	
Proceeds from exercise of stock options	674	2,143
Preferred stock dividends	(1,829)	(1,000)
Payments on notes payable	(59,785)	(138,350)
Proceeds from notes payable	15,000	158,999
Payments on real estate mortgage notes	(28,361)	(33,086)
Proceeds from real estate mortgage notes	20,000	21,987
Debt issuance costs	(1,415)	(2,130)
	<u>(42,543)</u>	<u>10,035</u>
Cash (used in) provided by financing activities	(42,543)	10,035
Net cash provided by (used in) discontinued operation	8,787	(4,402)
Effect of exchange rate changes in cash	3,789	(1,217)
	<u>(20,413)</u>	<u>13,510</u>
Net (decrease) increase in cash and cash equivalents	(20,413)	13,510
Cash and cash equivalents at beginning of year	131,860	124,527
	<u>111,447</u>	<u>138,037</u>
Cash of discontinued operations	66	(6,177)
	<u>\$ 111,513</u>	<u>\$ 131,860</u>
Cash and cash equivalents at end of year	\$ 111,513	\$ 131,860
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 8,956	\$ 11,036
Cash paid for income taxes	9,527	7,714

See accompanying notes to consolidated financial statements.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2002**

**1. Business**

Insignia Financial Group, Inc. ( Insignia or the Company ), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, the United Kingdom, France, continental Europe, Asia and Latin America. Insignia's principal executive offices are located at 200 Park Avenue in New York.

Insignia's real estate service businesses specialize in commercial leasing, sales brokerage, corporate real estate consulting, property management, property development and re-development, apartment brokerage and leasing, condominium and cooperative apartment management, real estate-oriented financial services, equity co-investment and other services. In 2002, Insignia's primary real estate service businesses include the following: Insignia/ESG (U.S. commercial real estate services), Insignia Richard Ellis (U.K. commercial real estate services), Insignia Bourdais (French commercial real estate services; acquired in December 2001), Insignia Douglas Elliman (New York apartment brokerage and leasing) and Insignia Residential Group (New York condominium, cooperative and rental apartment management). Insignia's commercial real estate service operations in continental Europe, Asia and Latin America include the following locations: Madrid and Barcelona, Spain; Frankfurt, Germany; Milan and Bologna, Italy; Brussels, Belgium; Amsterdam, The Netherlands; Tokyo, Japan; Hong Kong; Beijing and Shanghai, China; Bangkok, Thailand; Mumbai, Hyderabad, Bangalore, Chennai and Delhi, India; Manila, Philippines; and Mexico City, Mexico. The Company also owns 10% of an Irish commercial services company with offices in Dublin, the Republic of Ireland and Belfast, Northern Ireland.

In addition to traditional real estate services, Insignia has historically deployed its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ( GAAP ).

**Principles of Consolidation**



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Insignia's consolidated financial statements include the accounts of all majority-owned subsidiaries and all entities over which the Company exercises voting control. All significant intercompany balances and transactions have been eliminated. Entities in which the Company owns less than a majority interest and has substantial influence are recorded on the equity method of accounting (net of payments to certain employees in respect of equity grants or rights to proceeds).

In one instance, a minority-owned partnership (with additional promotional interests in profits depending on performance) is consolidated by virtue of general partner control. Since the cumulative losses of the partnership have exceeded the limited partners' original investment, the partnership is consolidated into Insignia's financial statements and no minority interest is reflected, even though Insignia holds a minority economic interest.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions are used in the evaluation and financial reporting for, among other things, bad debts, self-insurance

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

liabilities, intangibles and investment valuations, deferred taxes and pension costs. Actual results could differ from those estimates under different assumptions or conditions.

**Reclassifications**

Certain amounts for 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on the net loss or total stockholders' equity previously reported.

**Cash and Cash Equivalents**

The amount of cash on deposit in federally insured institutions generally exceeds the limit on insured deposits. The Company considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents.

**Restricted Cash**

At December 31, 2002 restricted cash consisted of approximately \$17.3 million in cash pledged to secure the bond guarantee of notes issued in connection with the Richard Ellis Group Limited ( REGL ) and St. Quintin Holdings Limited ( St. Quintin ) acquisitions and approximately \$4.2 million related to accounts of the consolidated real estate entities.

**Real Estate Investments**

Insignia has invested in real estate assets and real estate related debt securities. Generally, the Company's investment strategy involves identifying investment opportunities and investing as a minority owner in entities formed to acquire such assets. The Company's minority-owned investments are generally accounted for under the equity method of accounting due to the Company's influence over the operational decisions made with respect to the real estate entities. The Company's portion of earnings in these real estate entities is reported in equity earnings in unconsolidated ventures in its consolidated statements of operations, including gains on sales of property and net of impairments. The Company's share of unrealized gains on marketable equity and debt securities available for sale is reported as a component of other comprehensive income (loss), net of tax. Income from dispositions of minority-owned development assets is reported in real estate services revenues in the Company's consolidated statements of operations. The Company's policy with respect to the timing of recognition of promoted profit participation interests in its real estate investments is to record such amounts upon collection.

Each entity in which the Company holds a real estate investment is a special purpose entity, the assets of which are subject to the obligations only of that entity. Each entity's debt, except for limited and specific guarantees and other commitments aggregating \$14.0 million, is either (i) non-recourse except to the real estate assets of the subject entity (subject to limited exceptions standard in such non-recourse financing, including the misapplication of rents or environmental liabilities), or (ii) an obligation solely of such limited liability entity and thus having no recourse to other assets of the Company.

The Company provides real estate services to and receives real estate service fees from the entities comprising its principal investment activities. Such fees are generally derived from the following services: (i) property management, (ii) asset management, (iii) development management, (iv) investment management, (v) leasing, (vi) acquisition, (vii) sales and (viii) financings. With respect to fees that are currently recorded as expense by the entities, the Company includes the fees in current income, while its share as owner of such fee is

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

reflected in the income or loss from the investment entity. If the fee is capitalized by the investment entity, the Company records as income only the portion of the fee attributable to third party ownership and defers the portion attributable to its ownership.

The Company evaluates all real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset's carrying amount. Generally, Insignia relies upon the expertise of its own property professionals to assess real estate values; however, in certain circumstances where Insignia considers its expertise limited with respect to a particular investment, third party valuations may also be obtained. Property valuations and estimates of related future cash flows are by nature subjective and will vary from actual results.

In October 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. Insignia early adopted SFAS No. 144 as of January 1, 2001. SFAS No. 144 requires, in most cases, that gains/losses from dispositions of investment properties and all earnings from such properties be reported as discontinued operations. SFAS No. 144 is silent with respect to treatment of gains or losses from sales of investment property held in a joint venture. The Company has concluded that, as a matter of policy, all gains and losses realized from sales of minority owned property in its real estate co-investment program constitute earnings from a continuing line of business. Therefore, operating activity related to that investment program will continue to be included in income (loss) from continuing operations. However, SFAS No. 144 requires that gains or losses from sales of consolidated properties, if material, be reported as discontinued operations. As a result, the Company's earnings from dispositions of consolidated properties would be excluded from reported income from continuing operations and included in discontinued operations, if material.

**Consolidated Real Estate**

At December 31, 2002, the Company consolidated three investment entities owning real estate property. These consolidated properties include a wholly owned retail property; a wholly owned marine development property and a minority owned residential property consolidated due to general partner control. Rental revenue attributable to the Company's consolidated property operations are recognized when earned. Real estate is stated at depreciated cost. The cost of buildings and improvements include the purchase price of property, legal fees and acquisitions costs. Costs directly related to the development property are capitalized. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

The Company periodically reviews its properties to determine if its carrying amounts will be recovered from future operating cash flows. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements, which could differ materially from actual results in future periods.

**Development Activities**

At December 31, 2002, the Company held minority investments in four office properties whose development the Company has directed. A variety of costs have been incurred in the development and leasing of these properties. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The Company's capitalization policy on its development properties is guided by SFAS No. 34, *Capitalization of Interest Costs*, and SFAS No. 67, *Accounting for Costs and the Initial Rental Operations of Real Estate Properties*. The Company ceases capitalization when a property is held available for occupancy upon substantial completion of tenant improvements.

**Revenue Recognition**

The Company's real estate services revenues are generally recorded when the related services are performed or at closing in the case of real estate sales. Leasing commissions that are payable upon tenant occupancy, payment of rent or other events beyond the Company's control are recognized upon the occurrence of such events. As certain conditions to revenue recognition for leasing commissions are outside of the Company's control and are not clearly defined, judgment must be exercised in determining when such events have occurred. Revenues from tenant representation, agency leasing, investment sales and residential brokerage, which collectively comprise a substantial portion of Insignia's service revenues, are transactional in nature and therefore subject to seasonality and changes in business and capital market conditions. As a consequence, the timing of transactions and resulting revenue recognition is difficult to predict.

Insignia's revenue from property management services is generally based upon percentages of the revenue generated by the properties that it manages. In conjunction with the provision of management services, the Company customarily employs personnel (either directly or on behalf of the property owner) to provide services solely to the properties managed. In most instances, Insignia is reimbursed by the owners of managed properties for direct payroll related costs incurred in the employment of property personnel. The aggregate amount of such payroll cost reimbursements has ranged from \$50.0 million to \$60.0 million annually. Such payroll reimbursements are generally characterized in the Company's consolidated statements of operations as a reduction of actual expenses incurred. This characterization is based on the following factors: (i) the property owner generally has authority over hiring practices and the approval of payroll prior to payment by the Company; (ii) Insignia is the primary obligor with respect to the property personnel, but bears little or no credit risk under the terms of the management contract; (iii) reimbursement to the Company is generally completed simultaneously with payment of payroll or soon thereafter; and (iv) the Company generally earns no margin in the arrangement, obtaining reimbursement only for actual cost incurred.

**Advertising Expense**

The cost of advertising is expensed as incurred. The Company incurred approximately \$8,327,000 and \$8,926,000 in advertising costs during 2002 and 2001, respectively.

**Acquired Intangible Assets**

The Company's acquired intangible assets consist of property management contracts, favorable leases, non-competitive agreements, trademarks and franchises. Acquired intangible assets are stated at cost, less accumulated amortization. These assets are amortized using the straight-line method over 3 to 20 years, and are reviewed when indicators of impairment exist. Intangible assets are reviewed for impairment when indicators of impairment exist.

### **Property and Equipment**

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, typically ranging from 3 to 10 years.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Foreign Currency**

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generate approximately 25% of the Company's annual revenues. All currencies other than the British pound, euro and dollar have comprised less than 1% of annual revenues. Revenues and expenses of all foreign subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of stockholders' equity in accumulated other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income. For the twelve months ended December 31, 2002, the Company's European operations have been translated into U.S. dollars at average exchange rates of \$1.51 to the pound and \$0.95 to the euro. For the twelve months of 2001, European operations were translated to U.S. dollars at average exchange rates of \$1.44 and \$0.90 to the pound and euro, respectively.

The assets and liabilities of the Company's European operations have been translated at exchange rates of \$1.60 to the pound and \$1.05 to the euro at December 31, 2002.

**Accumulated Other Comprehensive Income (Loss)**

Other comprehensive income (loss) consists of unrealized gains (losses) on marketable equity securities, foreign currency translation and minimum pension liability adjustments. At December 31, 2002, accumulated other comprehensive losses totaled \$5.1 million (net of applicable taxes), comprised of unrealized gains on marketable securities of \$1.1 million and foreign currency translation gains of \$4.4 million and a minimum pension liability of \$10.6 million.

**Minority Interest**

During the first half of 2000, Insignia consolidated EdificeRex.com, Inc. (EdificeRex), the Company's internally developed internet-based business that launched in February 2000, and recorded net operating losses of approximately \$9.3 million, or \$3.2 million in excess of the Company's investment. EdificeRex was de-consolidated in the third quarter of 2000, due to an equity restructuring that reduced the Company's voting interest to approximately 47%. The \$3.2 million excess loss was carried as a deferred credit on the Company's balance sheet until EdificeRex disposed of all of its operating divisions and liquidated during the fourth quarter of 2001. At liquidation, the Company recognized the deferred credit of \$3.2 million in earnings, which is included in losses from internet investments.



**Income Taxes**

Deferred income tax assets and liabilities are recorded to reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and operating loss and tax credit carry forwards. Valuation allowances are provided against deferred tax assets that are unlikely to be realized. Federal income taxes are not provided on the unremitted earnings of foreign subsidiaries because it has been the practice of the Company to reinvest those earnings in the businesses outside the United States.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Impairment**

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 provides guidance for accounting and financial reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, it retains the fundamental provisions of that Statement. It also supersedes the accounting and reporting of APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* related to the disposal of a segment of a business. However, it retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity either disposed of or classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Insignia early adopted SFAS No. 144 as of January 1, 2001.

Impairment losses are recognized for long-lived assets held and used when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying amount. Impairment losses are measured for assets held for sale by comparing the fair value of assets (less costs to dispose) to their respective carrying amounts.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess of costs over fair value of assets of businesses acquired. As described in Note 4, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 5 to 25 years, and evaluated for potential impairment by determining whether the underlying undiscounted cash flows of the acquired business were sufficient to recover the carrying value of the asset.

**Stock-Based Compensation**

At December 31, 2002, the Company had four stock-based employee compensation plans that are described more fully in Note 14. Prior to 2002, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Effective January 1, 2002 the Company adopted the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, prospectively to all employee awards granted, modified or settled after January 1, 2002. Awards under the Company's plans vest over five years. The cost related to stock-based employee compensation included in the determination of net

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income for 2002 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 123. The following table illustrates the pro forma effect on net income and earnings per share if the fair value based method had been applied to all outstanding awards in each period.

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## INSIGNIA FINANCIAL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company's pro forma information follows:

	<u>2002</u>	<u>2001</u>
	<i>(In thousands, except per share data)</i>	
<b>Pro forma:</b>		
Income from continuing operations	\$ 6,556	\$ 4,014
Net loss	(4,981)	(15,846)
<b>Per share amounts:</b>		
Pro forma earnings per share - basic		
Income from continuing operations	\$ 0.19	\$ 0.14
Net loss	(0.31)	(0.76)
Pro forma earnings per share - assuming dilution		
Income from continuing operations	0.19	0.13
Net loss	(0.30)	(0.72)

The pro forma information has been determined as if the Company had accounted for its employee stock options, warrants and unvested restricted stock awards granted under the fair value method with fair values estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2002</u>	<u>2001</u>
Risk-free interest rate	2.5%	3.7%
Dividend yield	N/A	N/A
Volatility factors of the expected market price	0.45	0.49
Weighted-average expected life of the options	3.9	4.3

The Black-Scholes option valuation model was developed for use in estimating the fair value of transferable options and warrants with no vesting restrictions. This method requires the input of subjective assumptions including the expected stock price volatility and weighted average expected life of the options. The Company's employee stock options have characteristics significantly different from those of transferable options and changes in the subjective input assumptions can materially affect the value estimate. The Black-Scholes model is not the only reliable measure that could be used to determine the fair value of employee stock options. The Company believes that any and all valuations of employee stock options will necessarily be estimates.

**Risks and Uncertainties**

The Company's future results could be adversely affected by a number of factors, including (i) a general economic downturn in the Company's principal markets, most notably New York, London and Paris; (ii) unfavorable foreign currency fluctuations; (iii) changes in interest rates; and (iv) fluctuations in rental rates and real estate values.

### **Earnings Per Share**

Basic earnings per share is calculated using income available to common shareholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive securities, such as preferred stock, options and warrants, had been issued or exercised.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Recent Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. A public enterprise with a variable interest in a variable interest entity created before February 1, 2003, shall apply this guidance (other than the required disclosures prior to the effective date) to that entity as of the beginning of the first interim or annual reporting period beginning after December 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 provides guidance for accounting and financial reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. SFAS No. 146 requires the recognition of a liability for costs associated with an exit or disposal activity when the liability is incurred and establishes fair value as the initial measurement of a liability. Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date of a commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002.

**3. Discontinued Operations**

**Sale of Insignia Douglas Elliman and Insignia Residential Group**

On March 14, 2003, Insignia completed the sale of its New York-based residential businesses, Insignia Douglas Elliman and Insignia Residential Group, to Montauk Battery Realty, LLC. Montauk Battery Realty is located on Long Island, New York and its principal owners are New Valley Corp. and Dorothy Herman, chief executive officer of Prudential Long Island Realty. Insignia Douglas Elliman, acquired by Insignia in June 1999, provides sales and rental services in the New York City residential cooperative, condominium and rental apartment market and also operates in upscale suburban markets in Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Insignia Residential Group

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is the largest manager of cooperative, condominium and rental apartments in the New York metropolitan area.

The financial terms of the sale included the payment of \$66.75 million in cash to Insignia at closing of the transaction, \$500,000 in cash held in escrow on the closing date and up to another \$500,000 held in escrow pending receipt of specified commissions. In addition, the buyer acceded to existing contingent earn-out obligations of Insignia Douglas Elliman totaling up to \$4.0 million, depending on the future of the business. The

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

escrowed amounts are available to secure Insignia's indemnity obligations under the purchase and sale agreement. Any amounts remaining in escrow on March 14, 2004 and not securing previously made indemnity claims will be released to Insignia. Simultaneous with closing, Insignia paid down \$67.0 million on its senior revolving credit facility, decreasing outstanding borrowings to \$28.0 million. Insignia recognized a net gain of approximately \$3.8 million (net of \$4.7 million of applicable income taxes) during the first quarter of 2003 in connection with the sale of these residential businesses.

The operations of Insignia Douglas Elliman and Insignia Residential Group were discontinued in the first quarter of 2003. The Company's statements of operations and statements of cash flows for the years ended December 31, 2002 and 2001 have been restated to classify the operations and cash flows of these residential businesses as discontinued operations for financial reporting purposes.

**Sale of Realty One**

In December 2001, Insignia entered into a contract to sell its Realty One single-family home brokerage business and affiliated companies to Real Living, Inc., effective as of December 31, 2001. Real Living, Inc. is a privately held company formed by HER Realtors of Columbus, Ohio and Huff Realty of Cincinnati, Ohio. The sale closed on January 31, 2002. Proceeds from the sale potentially total \$33.0 million, including approximately \$29.0 million in cash received at closing (before extinguishment of \$5.5 million of Realty One debt) and additional receipts aggregating as much as \$4.0 million. The additional receipts include the following: (i) a \$1.0 million reimbursement, collected in February 2002, for Realty One operating losses in January 2002; (ii) a potential earn-out of as much as \$2 million receivable through 2003 (depending on the performance of the Realty One business); and (iii) a \$1 million operating lease receivable over four years for the use of proprietary software developed by Insignia for an internet-based residential brokerage model. The \$2.0 million earnout is receivable in increments of \$1.0 million each for the 2002 and 2003 fiscal years. The first \$1.0 million earnout for the 2002 fiscal year was achieved in full and be received by the Company in May 2003, as required by the terms of the sale. Remaining amounts due to Insignia under the terms of the sale totaling \$2.7 million were included in other assets in the Company's consolidated balance sheet at December 31, 2002. Insignia recognized a loss in connection with the sale of Realty One of \$17.6 million (net of applicable tax benefit of \$4.0 million) for the year ended December 31, 2001. During the twelve months ended December 31, 2002, the Company recognized net income of \$4.9 million from discontinued operations, including \$265,000 (net of tax), in post-closing adjustments in the first quarter and \$4.7 million in the third quarter from the reduction of a valuation allowance on the tax benefit on the capital portion of the loss on sale. This capital loss was fully reserved in 2001 because of uncertainty of its deductibility due to loss disallowance rules in the Treasury Regulations and insufficient income of the appropriate character. In the third quarter of 2002, it was determined that the loss would be fully deductible for tax purposes, resulting in the realization of a tax benefit for financial reporting purposes.



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The results of operations of Insignia Douglas Elliman, Insignia Residential Group and Realty One are reported separately as discontinued operations for the years ended December 31, 2002 and 2001. The following tables summarize the aggregate assets and liabilities of Insignia Douglas Elliman and Insignia Residential Group at December 31, 2002 and the results of operations and income (loss) on disposal of Insignia Douglas Elliman, Insignia Residential Group and Realty One for the periods presented (in thousands):

<b>Assets</b>	
Cash and cash equivalents	\$ 66
Receivables	2,479
Mortgage loans held for sale	
Property and equipment	11,766
Goodwill	34,117
Acquired intangible assets	11,999
Other assets	5,542
	<u>65,969</u>
<b>Liabilities</b>	
Accounts payable	2,535
Commissions payable	564
Accrued incentives	3,027
Accrued and sundry liabilities	4,045
Mortgage warehouse line of credit	
Notes payable	
	<u>10,171</u>
<b>Net assets of discontinued operations</b>	<b><u>\$ 55,798</u></b>

	<b>Years ended</b>	
	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
	<i>(In thousands)</i>	
Revenues	\$ 133,691	\$ 222,043
Income (loss) from operations, net of tax expense of \$3,707 (2002) and tax benefit of \$1,123 (2001)	4,180	(2,231)
Income (loss) on disposal, net of applicable tax benefits of \$2,844 (2002) and \$4,000 (2001)	4,918	(17,629)
Net income (loss)	<u>\$ 9,098</u>	<u>\$ (19,860)</u>

#### 4. Changes in Accounting Principles

##### Stock-Based Compensation

In September 2002, the Company adopted the fair value expense recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, in accounting for employee stock options. The accounting change results in the expensing of the estimated fair value of employee stock options granted by the Company, applied on a prospective basis for all stock options granted on or after January 1, 2002. The Company previously followed Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under APB Opinion No. 25, no compensation expense is recognized when the exercise price of an employee stock option equals or exceeds the market price at issuance.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The Company issued 290,000 employee options during 2002. The fair value of these options has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) estimated stock price volatility of 40%; (ii) risk free interest rate of 2.5%; (iii) weighted average option life of 3.9 years; and (iv) a forfeiture rate of 3%. Under these assumptions, the aggregate value of the options totaled approximately \$384,000, which is amortizable to expense over the vesting periods of six years. For 2002, stock compensation expense recognized totaled approximately \$102,000.

The ultimate impact of the accounting change on the Company's future earnings will depend on the number of options issued in the future, as to which the Company has no specific plan, and the estimated value of each option. Insignia does not expense the value of outstanding options issued before January 1, 2002.

**Goodwill and Intangible Assets**

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 replaced APB 16 and requires the use of the purchase method for all business combinations initiated after June 30, 2001. It also provides guidance on purchase accounting related to the recognition of intangible assets. Under SFAS 142, goodwill and other intangible assets deemed to have indefinite 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 goodwill or indefinite-lived intangibles might be impaired. Other acquired intangible assets with finite lives continue to be amortized over their estimated useful lives. The Company adopted SFAS No. 141 for all business combinations completed after June 30, 2001 and fully implemented SFAS No. 141 and SFAS No. 142 effective January 1, 2002. The Company identified its reporting units and determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those units as of January 1, 2002 for purposes of performing a required transitional goodwill impairment assessment within six months of adoption.

In early 2002, the Company performed internal analyses on its reporting units based on estimated industry multiples and the carrying values of tangible and intangible assets which demonstrated that the value of the Company's U.S. commercial operation significantly exceeded its carrying value and that goodwill of the Asian operation was fully impaired.

These analyses also indicated potential impairment in the Company's European operations and Insignia Douglas Elliman. The Company engaged Standard & Poor's to value the European and Insignia Douglas Elliman operations and those appraisals indicated no impairment in the Company's European operations and partial impairment in Insignia Douglas Elliman.

As a result of this evaluation, Insignia measured impairment for Insignia Douglas Elliman and the Asian business of an aggregate \$30.0 million, before applicable taxes. The Company recorded a \$20.6 million (net of tax benefit of \$9.4 million) transitional goodwill impairment charge in earnings as the cumulative effect of a change in accounting principle, effective January 1, 2002.

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The Company concluded its annual impairment test as of December 31, 2002, and that test did not demonstrate further goodwill impairment. The estimation of business values for measuring goodwill impairment is highly subjective and selections of different projected income levels and valuation multiples within observed ranges can yield different results.

Amortization of goodwill (from continuing operations) totaled approximately \$14.8 million for 2001. Elimination of goodwill amortization would have improved income from continuing operations by approximately

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

\$10.3 million (net of applicable taxes) for 2001. The following table provides pro forma information to reflect the effect of adoption of SFAS No. 142 on earnings for 2001.

	<b>2001</b>
	<i>(In thousands)</i>
Reported income from continuing operations	\$ 6,352
Less: Preferred stock dividend	(1,000)
Income from continuing operations available to common shareholders	5,352
Add: Goodwill amortization, net of tax benefit of \$4,520	10,260
Adjusted income from continuing operations available to common shareholders	\$ 15,612
<b>Earnings per common share basic:</b>	
Reported income from continuing operations	\$ 0.24
Add: Goodwill amortization, net of tax benefit of \$0.20	0.47
Adjusted income from continuing operations	\$ 0.71
<b>Earnings per common share assuming dilution:</b>	
Reported income from continuing operations	\$ 0.25
Add: Goodwill amortization, net of tax benefit of \$0.18	0.41
Adjusted income from continuing operations	\$ 0.66

Additional contingent purchase price of acquired businesses totaling \$17.9 million was recorded as additional goodwill during 2002. Such additional purchase price included: (i) Insignia Bourdais earnout of \$10.3 million (paid by issuance of 131,480 shares of Insignia common stock, a cash payment of \$4.7 million and \$4.3 million accrued at December 31, 2002); (ii) a \$4.0 million earnout with respect to the prior Boston acquisition by Insignia/ESG; (iii) a \$2.0 million earnout related to Insignia Douglas Elliman; and (iv) \$1.6 million of payments related to other acquisitions. The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2001 to December 31, 2002.

	<b>Commercial</b>	<b>Residential</b>	<b>Total</b>
		<i>(In thousands)</i>	
<b>Balance as of December 31, 2001</b>	\$ 228,967	\$ 59,386	\$ 288,353
Effect of adoption of SFAS 142	(3,201)	(26,822)	(30,023)

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Balance as of January 1, 2002	225,766	32,564	258,330
Additional purchase consideration	15,922	2,000	17,922
Other reclassifications	(143)		(143)
Goodwill related to partial sale of business unit		(447)	(447)
Foreign currency translation	13,899		13,899
<b>Balance as of December 31, 2002</b>	<b>\$ 255,444</b>	<b>\$ 34,117</b>	<b>\$ 289,561</b>

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following table presents certain information on the Company's acquired intangible assets as of December 31, 2002 (in thousands):

Acquired Intangible Assets	Weighted	Gross	Accumulated	Net Balance
	Average			
	Amortization	Carrying	Amortization	
	Period	Amount		
Property management contracts	7 years	\$ 72,883	\$ 60,081	\$ 12,802
Favorable premises leases	8 years	4,831	1,667	3,164
Other	3 years	5,173	3,528	1,645
<b>Total</b>		<b>\$ 82,887</b>	<b>\$ 65,276</b>	<b>\$ 17,611</b>

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in "Other" consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate reported acquired intangible amortization expense for 2002 and 2001 totaled approximately \$4.4 million and \$5.6 million, respectively. Amortization of favorable premises leases, totaling approximately \$157,000 for 2002 is included in rental expense (included in real estate services expenses) in the Company's consolidated statements of operations.

The estimated acquired intangible assets amortization expense, including amounts reflected in rental expense, for the subsequent five fiscal years through December 31, 2007 approximates \$2.0 million, \$941,000, \$550,000, \$523,000 and \$370,000, respectively.

**5. Earnings Per Share**

The following table sets forth the computation of the numerator and denominator used for the computation of basic and diluted earnings per share for the periods indicated.

	2002	2001
	<i>(In thousands)</i>	
<b>Numerator:</b>		

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Numerator for basic and diluted earnings per share income available to common stockholders after assumed conversions (before discontinued operations and cumulative effect)	\$ 6,864	\$ 5,352
	<u>          </u>	<u>          </u>
<b>Denominator:</b>		
Denominator for basic earnings per share weighted average common shares	23,122	22,056
Effect of dilutive securities:		
Stock options, warrants and unvested restricted stock	569	1,342
	<u>          </u>	<u>          </u>
Denominator for diluted earnings per share weighted average common shares and assumed conversions	23,691	23,398
	<u>          </u>	<u>          </u>

The potential dilutive shares from the conversion of preferred stock is not assumed for the year ended December 31, 2002 or 2001, because the inclusion of such shares would be antidilutive.



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****6. Acquisitions**

The Company's significant acquisitions during the last two years are discussed below. All acquisitions were accounted for as purchases and the results of operations have been included in Insignia's statement of operations from the respective date of acquisition. Contingent purchase consideration is generally accounted for as additional costs in excess of net assets of acquired businesses when incurred.

**Groupe Bourdais**

In late December 2001, Insignia completed the acquisition of Groupe Bourdais, one of France's premier commercial real estate services companies. Groupe Bourdais now operates under the Insignia Bourdais name. The Insignia Bourdais purchase price consists of total potential consideration of approximately \$50.2 million. Amounts paid and or accrued in cash or stock (534,125 common shares) at December 31, 2002 total approximately \$31.7 million. Additional consideration up to approximately \$18.5 million may be paid over the two years ending December 31, 2004, depending on the performance of the Insignia Bourdais operation. The acquisition consisted substantially of specifically identified intangible assets and goodwill. Identified intangible assets, included customer backlog, property management contracts, a non-compete agreement, franchise agreements, trademarks and a favorable premises lease. The results of Insignia Bourdais have been included in the Company's financial statements since January 1, 2002.

**Baker Commercial**

In October 2001, Insignia acquired Baker Commercial Real Estate ( Baker ), a leading provider of commercial real estate services in the greater Dallas area. Baker provides tenant representation, land and investment property sales, and strategic real estate planning. The Baker acquisition augments Insignia's existing regional tenant representation and investment sales capabilities in the greater Dallas area. The base purchase price was approximately \$2.2 million and was paid in cash. Additional purchase consideration of up to \$1.0 million payable over 2003 and 2004 is contingent on the future performance of the Dallas operations.

**Other Information (Unaudited)**

Pro forma unaudited results of operations for the year ended December 31, 2001, assuming consummation of the Bourdais acquisition at January 1, 2001, is as follows (in thousands, except per share data):

Revenues	\$ 672,115
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Income from continuing operations	9,012
Net loss	(11,053)
Pro forma per share amounts:	
Net loss basic	\$ (0.50)
Net loss assuming dilution	(0.47)

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

These pro forma results do not purport to represent the operations of the Company nor are they necessarily indicative of the results that actually would have been realized by the Company if the purchase of these businesses had occurred at the beginning of the periods specified. Except for the Bourdais acquisition, the financial operations of the acquired businesses were not significant to those of the Company. The base purchase consideration for the Bourdais and Baker acquisitions and other individually insignificant acquisitions is summarized as follows:

	<b>2001</b>
	<i>(In thousands)</i>
Common stock	\$ 4,000
Accrued and sundry liabilities	10,990
Cash paid at the closing dates	20,508
	<b>\$ 35,498</b>

The base purchase consideration was allocated as follows:

	<b>2001</b>
	<i>(In thousands)</i>
Cash acquired	\$ 8,856
Receivables	5,469
Property and equipment	415
Property management contracts	1,008
Non-compete agreements	153
Goodwill	14,540
Other assets	5,057
	<b>\$ 35,498</b>

**7. Receivables**

At December 31, 2002, receivables consisted of the following (in thousands):

Commissions and accounts receivable, net of allowance	\$ 140,589
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Notes receivable:

Broker signing bonuses and advances	7,111
Brokerage and other employees	3,483
Executive officers, with interest at the Company's cost	
of debt capital (approximately 5.25%)	3,269
Reimbursement due from Chairman (collected on February 28, 2003)	691
Other	178
	<hr/>
	14,732
	<hr/>
	\$ 155,321
	<hr/>

Accounts receivable consists primarily of property management fees and cost reimbursements. Commissions receivable consists primarily of brokerage and leasing commissions from users of the Company's real estate services. The Company's receivables are not collateralized; however, credit losses have been insignificant. The Company's bad debt expense totaled approximately \$5.0 million and \$1.9 million in 2002 and 2001, respectively.

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Long-term commissions receivable totaling \$8.4 million at December 31, 2002 have been discounted to their present value based on an estimated discount rate of 5.25%. Broker signing bonuses and advances are generally forgiven over the terms of employment, subject to potential repayment based on certain specific conditions.

Principal collections on brokerage, employee and executive notes receivable and scheduled forgiveness of Broker signing bonuses and advances are as follows:

	<b>Amount</b>
	<i>(In thousands)</i>
2003	\$ 6,369
2004	2,865
2005	3,860
2006	1,205
2007	433
	<b>\$ 14,732</b>

**8. Property and Equipment**

At December 31, 2002, property and equipment consisted of the following (in thousands):

Data processing equipment	\$ 32,010
Computer software	34,291
Furniture and fixtures	17,466
Leasehold improvements	19,805
Other equipment	7,436
	<b>111,008</b>
Less: Accumulated depreciation	(55,394)
	<b>\$ 55,614</b>

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The useful life of each property and equipment category is listed below: Data processing equipment, 3 years; Computer software, 2-10 years; Furniture and fixtures, 7-10 years; Leasehold improvements, generally 5-10 years; Other equipment, 3-7 years.

### **9. Real Estate Investments**

The Company has engaged in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its own behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt. The Company is currently not engaged in new investments although, is continuing its investment in existing real estate entities as needed or required by current business plans.

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At December 31, 2002, the Company's real estate investments totaled \$134.1 million and consisted of the following (in thousands):

Minority interests in operating properties	\$ 21,109
Consolidated properties	85,205
Minority owned development properties	10,014
Land held for future development	1,726
Minority interests in real estate debt investment funds	16,081
	<hr/>
<b>Total Real Estate Investments</b>	<b>\$ 134,135</b>
	<hr/>

The real estate carrying amounts of the three consolidated properties at December 31, 2002 were financed by real estate mortgage notes encumbering the assets totaling \$66.8 million. At December 31, 2002, Insignia had equity investments of approximately \$21.7 million in these consolidated properties and has no further obligations to the subsidiaries or their creditors.

Insignia maintains an incentive compensation program pursuant to which certain employees, including executive officers, participate in the profits generated by its real estate investments, through grants of either equity interests (at the time investments are made) or contractual right to participate in proceeds from successful investments. Such grants generally consist of an aggregate of 50% to 63.5% of the cash proceeds paid to Insignia after Insignia has recovered its full investment plus a 10% per annum return thereon. In addition, upon disposition, the Company generally makes discretionary incentive payments of 5% to 10% to certain employees who directly contributed to the success of an investment. With respect to the private investment funds, employees are collectively entitled to share 55% to 60% of proceeds received by Insignia in respect of its promoted profits participation in those funds. Employees share only in promoted profits and are not entitled to any portion of earnings on the Company's actual investment. Gains on sales of real estate and equity earnings for 2002 and 2001 are recorded net of employee entitlements and discretionary incentives of approximately \$8.1 million and \$10.8 million, respectively. The Company's principal investment programs are more fully described below.

**Property Investment**

The Company maintains minority investments in operating real estate assets including office, retail, industrial, apartment and hotel properties. As of December 31, 2002, Insignia held equity investments totaling \$21.1 million in 30 minority owned property assets. These properties consist of approximately 6.0 million square feet of commercial property and 1,967 multi-family apartment units and hotel rooms. The Company's minority ownership interests in co-investment property range from 1% to 33%. Gains realized from sales of real estate by minority owned ventures totaled \$4.2 million in 2002 and \$11.0 million in 2001. Such amounts are included in the caption equity earnings in unconsolidated ventures in the Company's consolidated statements of operations.

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Insignia also consolidates two operating properties, a wholly owned retail property located in Norman, Oklahoma and a New York City apartment complex owned by a limited partnership in which the Company owns a 1% controlling general partner interest. These properties contain approximately 155,000 square feet of commercial space and 420 multi-family apartment units. With respect to the New York City apartment complex, in addition to its 1% interest, Insignia is entitled to approximately \$1.3 million of the first \$7.3 million distributed and approximately 45% of all additional distributions. In July 2002, Insignia invested approximately \$1.3 million in the limited partnership as a new limited partner pursuant to a \$1.5 million equity financing and the purchase of an existing partners interest. The remaining equity financing was invested in June 2002 by existing limited partners. Certain executives and other employees of Insignia have the right to acquire from the Company, at its

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**INSIGNIA FINANCIAL GROUP, INC.**

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cost, approximately 50% of the \$1.3 million limited partner investment made in July 2002. Such executives and employees have no other incentive grants or participation rights with respect to this investment.

Although Insignia's economic interest in the New York City apartment complex at its initial investment was nominal (until the limited partners received a return of all invested capital), the Company commenced consolidating this property in its financial statements as of January 1, 2002 because (i) the partnership agreement for the property-owning partnership grants the general partner complete authority over the management and affairs of the partnership, including any sale or refinancing of its sole asset without limited partner approval, and (ii) accounting principles generally accepted in the United States require consolidation on the basis of voting control (regardless of the level of equity ownership).

At December 31, 2002, the carrying amounts of these two consolidated properties totaled \$46.4 million, and non-recourse real estate mortgage debt totaled \$46.8 million. In September 2002, a consolidated retail property was sold for a \$1.3 million net gain. The gain is included under the caption "other income, net" in the Company's consolidated statements of operations.

**Development**

The Company's development program includes minority-owned office developments and a wholly owned marina based development located in the U.S. Virgin Islands. In July 2002, a subsidiary of the Company acquired three contiguous parcels of property and related leasehold rights in St. Thomas, U.S. Virgin Islands, which comprise 32.3 acres of property, including 18 submerged acres with full water rights. The initial purchase price was approximately \$35.0 million, paid with \$18.5 million in cash and \$20.0 million borrowed by the subsidiary under a non-recourse \$40.0 million mortgage loan facility. The property is currently undergoing predevelopment activities together with operating activities of an existing marina. The property and its debt are consolidated in the Company's consolidated financial statements. Insignia's equity investment in the property totaled \$19.3 million at December 31, 2002.

Insignia also has minority ownership in four office projects whose development is directed by the Company and owns a parcel of land in Denver, located adjacent to one of the office developments, that is held for future development. Development activities on all four office buildings have been completed other than tenant improvements associated with additional leasing. Insignia's ownership in the four office developments ranges from 25% to 33% and all have commenced operations.

The Company's only financial obligations with respect to the office developments, beyond its investment, are partial construction financing guarantees, backed by letters of credit, totaling \$8.9 million. The Company's investment in the office development assets and land parcel totaled \$11.7 million at December 31, 2002. The Company has not initiated any new office developments since September 2000 and does not currently intend to further expand this development program.

Interest capitalized in connection with development properties totaled approximately \$1,673,000 and \$500,000 in 2002 and 2001, respectively.

**Private Investment Funds**

Insignia Opportunity Trust ( IOT ) is an Insignia-sponsored private real estate investment fund formed in late 1999. IOT, through its subsidiary operating partnership, Insignia Opportunity Partners ( IOP ), invests primarily in secured real estate debt instruments and, to a lesser extent, in other real estate debt and equity instruments, with a focus on below investment grade commercial mortgage-backed securities. IOT completed its

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

deployment of committed capital (totaling \$71.0 million) in 2002, of which \$10.0 million was invested by Insignia and the remainder by third-party investors. Insignia has an aggregate ownership interest of approximately 13% in IOT and IOP and also has a 10% non-subordinated promoted interest in IOP.

In September 2001, Insignia closed the capital-raising phase for a second real estate investment fund, Insignia Opportunity Partners II ( IOP II ), with \$48.5 million of equity capital commitments from Insignia and third-party investors. IOP II invests primarily in secured real estate debt instruments, similar to the investment initiatives of IOT. IOP II had called \$28.2 million of its total capital commitments at December 31, 2002. Insignia holds a 10% ownership in IOP II and serves as its day-to-day advisor.

Insignia realized total earnings from both funds of approximately \$4.0 million (2002) and \$2.6 million (2001). Such earnings are included in equity earnings in unconsolidated ventures.

At December 31, 2002, Insignia held investments totaling \$16.1 million in IOT, IOP and IOP II and had commitments to invest an additional \$2.1 million in IOP II. The following table summarizes financial information of IOT and IOP II as of December 31, 2002 (in thousands):

Total assets	\$ 150,139
Total liabilities	36,358
Total revenues	25,992

Apart from its real estate investments, Insignia had obligations totaling \$14.0 million to all real estate entities at December 31, 2002, which consisted of the following (in thousands):

Letters of credit partially backing construction loans	\$ 8,900
Other partial guarantees of property debt	2,825
Future capital contributions for capital improvements	150
Future capital contributions for asset purchases	2,105
<b>Total Obligations</b>	<b>\$ 13,980</b>

Outstanding letters of credit generally have one-year terms to maturity and bear standard renewal provisions. Other letters of credit and guarantees of property debt do not bear formal maturity dates and remain outstanding until certain conditions (such as final sale of property and funding of capital commitments) have been satisfied. The future capital contributions represent contractual equity commitments for specified activities of the respective real estate entities. Insignia, as a matter of policy, would consider advancing funds to real estate entities beyond its legal obligation as a new capital contribution subject to normal investment returns.



**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Summarized financial information of unconsolidated real estate entities is as follows:

	<b>Year ended December 31</b>	
	<b>2002</b>	<b>2001</b>
<b>Condensed Statements of Operations Information</b>		
	<i>(In thousands)</i>	
Revenues	\$ 197,255	\$ 222,502
Total operating expenses	(190,543)	(208,556)
Income before gains on sales of properties	6,712	13,946
Gains on sales of properties	41,252	107,025
Net income	\$ 47,964	\$ 120,971
Company's share of net income:		
Included in equity earnings in unconsolidated ventures	\$ 3,482	\$ 13,911

Equity earnings in unconsolidated ventures included pre-tax gains on dispositions of minority-owned investments totaling \$4.2 million and \$11.0 million in 2002 and 2001, respectively.

	<b>December 31, 2002</b>
<b>Condensed Balance Sheet Information</b>	
	<i>(In thousands)</i>
Cash and investments	\$ 46,068
Receivables and deposits	25,946
Investments in commercial mortgage backed securities	127,116
Investments in mezzanine loans	1,731
Other assets	31,573
Real estate	1,056,037
Less accumulated depreciation	(95,891)
Net real estate	960,146
Total assets	\$ 1,192,581

Mortgage notes payable	\$ 712,601
Other liabilities	27,435
	<hr/>
Total liabilities	740,036
Partners' capital	452,545
	<hr/>
Total liabilities and partners' capital	\$ 1,192,581
	<hr/>

**Real Estate Impairment**

During 2002, the Company recorded impairment against its real estate investments of \$3.5 million on eight property assets. The impairment charge includes \$560,000 for a owned land parcel in Denver, held for future development, based on a third party appraisal. The Company recorded an impairment charge during 2001 of \$824,000.

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****10. Other Assets**

At December 31, 2002, other assets consisted of the following (in thousands):

Loan costs, net	\$ 2,412
Amount receivable in connection with disposition	2,693
Federal tax refund receivable (domestic)	3,966
Prepaid taxes	5,246
Other prepaid expenses	12,088
Real estate sales proceeds	7,865
Other	5,687
	<hr/>
	\$ 39,957
	<hr/>

Real estate sales proceeds of \$7.9 million represents sale proceeds from a minority owned real estate property received in December 2002 and payable to a third party investor in 2003. The corresponding payable is included in the Company's accrued and sundry liabilities at December 31, 2002.

**11. Accrued and Sundry Liabilities**

At December 31, 2002, accrued and sundry liabilities consisted of the following (in thousands):

Employee compensation and benefits	\$ 13,791
Acquisition related lease and annuity liabilities	6,379
Amounts payable in connection with acquisitions	6,450
Deferred compensation	21,192
Deferred revenue	13,948
Current taxes payable	7,175
Value added taxes	6,312
Minimum pension liability	14,571
Real estate sales proceeds payable	7,865
Liabilities of consolidated real estate entities	3,136
Other	17,171
	<hr/>
	\$ 117,990

Deferred revenue consists of lease commissions collected but deferred due to contingencies and the Company's ownership portion of acquisition and development fees in certain real estate partnerships. Deferred acquisition and development fees are realized in income upon disposal of the Company's ownership, generally from property sales, and deferred leasing commissions are recognized upon the fulfillment of all conditions to commission payment, such as tenant occupancy or payment of rent.

## **12. Private Financing**

In June 2002, Insignia executed agreements for \$50.0 million of new capital through a private investment by funds affiliated with Blackacre Capital Management, LLC (Blackacre). The investment consists of \$12.5

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

million in newly issued shares of Series B convertible preferred stock and a commitment to provide \$37.5 million of subordinated debt. The preferred stock carries an 8.5% annual dividend, payable quarterly at Insignia's option in cash or in kind, and is convertible into Insignia common stock at a price of \$15.40 per share, subject to adjustment. The preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. In February 2000, Blackacre purchased \$25.0 million of convertible preferred stock, which has now been exchanged for a Series A convertible preferred stock with an 8.5% annual dividend and a conversion price of \$14.00 per share.

The Blackacre credit facility, which is subordinate to Insignia's senior credit facility, bears interest at an annual rate of 11.25% to 12.25%, payable quarterly, depending on the amount borrowed. In July 2002, Insignia borrowed \$15.0 million under the credit facility. The proceeds were used to finance the purchase of the development property and related leasehold rights in St. Thomas, United States Virgin Islands (discussed under Real Estate Principal Investment Activities above). Insignia may draw down the remaining \$22.5 million of availability at any time until December 2003. Any further borrowings will bear interest at 12.25%. The subordinated debt has a final maturity of June 2009.

**13. Long-Term Debt**

Total long-term debt consists of notes payable of the Company and real estate mortgage notes of consolidated real estate entities.

**Notes Payable**

At December 31, 2002, notes payable consisted of the following (in thousands):

Senior revolving credit facility with interest due quarterly at LIBOR plus 2.0 to 2.5% (totaling approximately 4.3%). Final payment due date is May 8, 2004	\$ 95,000
Senior subordinated credit facility with interest due quarterly at 11.25% and a final maturity of June 2009	15,000
Acquisition loan notes with an interest rate of approximately 3.0% and a final maturity of April 2010	16,889
	<hr/>
	\$ 126,889
	<hr/>

The Company's debt includes outstanding borrowings under its \$230.0 million senior revolving credit facility and a \$37.5 million subordinated credit facility entered into in June 2002 with Blackacre. The margin above LIBOR on the senior facility was 2.50% at December 31, 2002. The Company also had outstanding letters of credit of \$11.0 million at December 31, 2002. At December 31, 2002 the unused commitment on the senior revolving credit facility was approximately \$124.0 million.

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The \$37.5 million Blackacre credit facility is subordinate to Insignia's senior credit facility and bears interest, payable quarterly, at an annual rate of 11.25% to 12.25%, depending on the amount borrowed. At December 31, 2002, the Company had borrowings of \$15.0 million outstanding on the subordinated credit facility at an interest rate of 11.25%. Any further borrowings bear interest at 12.25%. Insignia may draw down the remaining \$22.5 million of availability at any time until December 2003. The subordinated debt has a final maturity of June 2009.

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The senior credit facility provides for foreign denominated borrowings up to an aggregate \$75 million. No foreign denominated borrowings were outstanding at December 31, 2002. The senior facility is collateralized by a pledge of the stock of domestic subsidiaries and material foreign subsidiaries.

The Company also maintains a £5 million line of credit in the UK for short term working capital purposes in Europe. The Company has not borrowed on this line of credit during the past two years.

The U.K. acquisition loan notes outstanding at December 31, 2002 are guaranteed by a bank, as required by the terms of the respective purchase agreements. The bank holds restricted cash deposits sufficient to repay the notes in full when due. These loan notes are redeemable semi-annually at the discretion of the note holder.

In March 2003, the Company repaid \$67.0 million on the senior credit facility as a result of the sale of its residential businesses Insignia Douglas Elliman and Insignia Residential Group. In conjunction with the pay-down, the commitment under the senior credit facility was reduced from \$230.0 million to \$165.0 million.

The Company's credit agreements and other debt agreements contain various restrictive covenants requiring, among other things, minimum consolidated net worth and certain other financial ratios. The Company's revolving credit facility restricts the payment of cash dividends to an amount not to exceed twenty-five percent of net income for the immediately preceding fiscal quarter. At December 31, 2002, Insignia had approximately \$80.0 million of availability on its credit facilities under these covenants. At December 31, 2002, the Company was in compliance with all covenants.

**Real Estate Mortgage Notes**

At December 31, 2002, real estate mortgage notes represented non-recourse loans collateralized by real estate properties and consisted of the following (in thousands):

Brookhaven Village, mortgage loan bearing interest at 6.24% with a final maturity in December 2004	\$ 8,305
U.S. Virgin Islands development loan bearing interest at LIBOR plus 5.0% with a floor of 8.0% (8% at December 31, 2002). The note matures in August 2005	20,000
West Village, FHA loan bearing interest at 7.25%. The loan matures in October 2013	7,064
West Village, HPD note bearing interest at 8.5% and maturing in October 2023 (loan amount plus unpaid accrued interest)	29,897
West Village, non-interest bearing residual receipt note maturing in October 2023	1,529

The mortgage note encumbering Brookhaven Village includes a participation feature whereby the lender is entitled to 35% of the net cash flow, net refinancing proceeds or net sales proceeds after the Company has achieved a 10% annual return on equity. The projected participation liability to the lender equaled approximately \$715,000 at December 31, 2002. This amount is substantially contingent upon a sale of the asset. The U.S. Virgin Island development loan includes a one time deferred financing fee of 4.35% to 17% of the loan proceeds, depending of the length of financing. This deferred financing fee is payable at loan maturity or the early repayment of the loan.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Scheduled principal maturities on all long-term debt payable after December 31, 2002 are as follows:

	Notes Payable	Real Estate Mortgage Notes	Total
		<i>(In thousands)</i>	
2003	\$ 16,889	\$ 412	\$ 17,301
2004	95,000	8,786	103,786
2005		20,518	20,518
2006		556	556
2007		598	598
Thereafter	15,000	35,925	50,925
	<u>\$ 126,889</u>	<u>\$ 66,795</u>	<u>\$ 193,684</u>

**14. Stock Compensation Plans**

The Company's 1998 Stock Incentive Plan, as amended and restated (the "1998 Plan"), authorized the grant of options and restricted stock awards to management personnel totaling up to 4,500,000 shares of the Company's common stock. The term of each option is determined by the Company's Board of Directors but will in no event exceed ten years from the date of grant. Options granted typically have five-year terms and are granted at prices not less than 100% of the fair market value of the Company's common stock on the date of grant. The 1998 Plan may be terminated by the Board of Directors at any time. In September 1998, the Company was spun-off from its former parent, a company also named Insignia Financial Group, Inc. At the spin-off date, the Company assumed, under the 1998 Plan, approximately 1,787,000 options issued by the former parent to employees of the businesses included in the spin-off. At December 31, 2002, 1,926,583 options were outstanding under the 1998 Plan.

At December 31, 2002, approximately 96,000 unvested restricted stock awards to acquire shares of the Company's common stock were outstanding under the 1998 Plan. These awards, which have a five-year vesting period, were granted to executive officers and other employees of the Company. Compensation expense recognized by the Company for these awards totaled approximately \$706,000 and \$627,000 for 2002 and 2001, respectively.

During 2002, the Company granted 150,000 nonqualified options to the president of Insignia Douglas Elliman, pursuant to his employment agreement. These options were issued outside of the 1998 Plan and have a five-year vesting period.

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The Company assumed 1,289,329 options under Non-Qualified Stock Option Agreements in connection with the acquisition of REGL. The options had five-year terms at the date of grant and the terms remained unchanged at the date of assumption. At December 31, 2002, 654,806 options remained outstanding.

The Company assumed approximately 612,000 options under Non-Qualified Stock Option Agreements in connection with the acquisition of St. Quintin. The options had five-year terms at the date of grant and the terms remained unchanged at the date of assumption. At December 31, 2002, 266,484 options remained outstanding.

The Company assumed 110,000 options under a Non-Qualified Stock Option Plan in connection with a prior acquisition. At December 31, 2002, 65,000 options remained outstanding under the plan. The options had five and one half-year terms at the date of grant and the terms remained unchanged at the date of assumption.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The terms of all options assumed in connection with acquisitions remained subject to continued vesting over their original terms. These options have been accounted for as additional purchase consideration for each respective business combination.

During 2000, Insignia granted 1,493,000 warrants to purchase Insignia common stock to certain key executives, non-employee directors and other employees under Warrant Agreements. Such warrants had five-year terms at the date of grant. At December 31, 2002, 1,432,500 warrants remained outstanding.

Pursuant to the Company's Supplemental Stock Purchase and Loan Program, Insignia has loans outstanding to seven employees, including three executive officers, of the Company. These loans were originally made in 1998 and 1999 for the purchase of 158,663 newly issued shares of Insignia's common stock at an average share price of approximately \$12.18. The loans require principal and interest payments, at a fixed rate of 7.5%, in 40 equal quarterly installments ending December 31, 2009. The notes are secured by the common shares and are non-recourse to the employee except to the extent of 25% of the outstanding amount. The outstanding principal balances of these notes totaled \$1,193,000 at December 31, 2002. The notes receivable are classified as a reduction of stockholders' equity in the Company's consolidated balance sheet.

The Company's 1998 Employee Stock Purchase Plan (the "Employee Plan") was adopted to provide employees with an opportunity to purchase common stock through payroll deductions at a price not less than 85% of the fair market value of the Company's common stock. The Employee Plan was developed to qualify under Section 423 of the Internal Revenue Code of 1986.

In connection with the Company's spin-off in September 1998, 1,196,000 warrants to purchase shares of common stock of the Company (at \$14.50 per share) were issued to holders of the Convertible Preferred Securities of the Company's former parent. The term of each warrant is five years. The Company's former parent purchased the warrants from Insignia in 1998 for approximately \$8.5 million. At December 31, 2002, all warrants remained outstanding and were fully exercisable.

The Company's common stock reserved for future issuance in connection with stock compensation plans totaled 5,751,373 shares at December 31, 2002.

Summaries of the Company's stock option, warrant and unvested restricted stock activity, and related information for the years ended December 31, 2002 and 2001 are as follows:

2002		2001	
Shares	Weighted Average	Shares	Weighted Average

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	<u>        </u>	<b>Exercise Price</b>	<u>        </u>	<b>Exercise Price</b>
		<u>        </u>		<u>        </u>
Outstanding at beginning of year	6,616,404	\$ 10.32	8,304,155	\$ 10.06
Options and warrants granted	290,000	10.33	30,000	11.70
Options granted in connection with a prior acquisition			20,000	10.80
Exercised	(200,674)	3.48	(690,941)	6.64
Forfeited/canceled	(954,357)	11.95	(1,046,810)	9.40
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Outstanding at end of year	5,751,373	10.30	6,616,404	\$ 10.32
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Exercisable at end of year	4,501,359	\$ 10.66	4,233,299	\$ 11.31
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Weighted-average fair value of grants during the year		\$ 2.90		\$ 5.32
		<u>        </u>		<u>        </u>

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## INSIGNIA FINANCIAL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant option, warrant and unvested restricted stock groups outstanding at December 31, 2002 and related weighted average price and life information follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted	Number Exercisable	Weighted
			Average		Average
			Exercise Price		Exercise Price
\$0.00 - \$7.50	1,017,526	1.9 years	\$5.82	560,066	\$6.41
\$7.51 - \$11.00	2,108,000	2.5 years	\$8.40	1,723,330	\$8.06
\$11.01 - \$14.00	1,308,965	1.7 years	\$12.61	901,081	\$12.65
\$14.01 - \$15.69	1,316,882	0.8 years	\$14.51	1,316,882	\$14.51
	<u>5,751,373</u>		<u>\$10.30</u>	<u>4,501,359</u>	<u>\$10.66</u>

**15. Income Taxes**

For financial reporting purposes, income (loss) from continuing operations before income taxes includes the following components:

	2002	2001
	<i>(In thousands)</i>	
United States	\$ (3,583)	\$ 4,200
Foreign	19,632	5,674
	<u>\$ 16,049</u>	<u>\$ 9,874</u>

Significant components of the income tax expense from continuing operations are as follows:

2002	2001
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	<u>          </u>	<u>          </u>
	<i>(In thousands)</i>	
Current:		
Federal	\$ (324)	\$ 1,080
Foreign	8,279	4,868
State and local	(299)	328
	<u>          </u>	<u>          </u>
Total current	7,656	6,276
Deferred:		
Federal	2,053	(1,662)
Foreign	960	(944)
State and local	(3,657)	(148)
	<u>          </u>	<u>          </u>
Total deferred	(644)	(2,754)
	<u>          </u>	<u>          </u>
	\$ 7,012	\$ 3,522
	<u>          </u>	<u>          </u>

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Components of income tax expense (benefit) reported other than in continuing operations are as follows:

	<u>2002</u>	<u>2001</u>
	<i>(In thousands)</i>	
<b>Discontinued Operations:</b>		
Income (loss) from operations	\$ 3,707	\$ (1,123)
Income (loss) on disposal	(2,844)	(4,000)
<b>Total</b>	<b>863</b>	<b>(5,123)</b>
<b>Accumulated Other Comprehensive Income:</b>		
Minimum pension liability	(3,832)	(696)
Unrealized investment gains	752	7
Currency translation	6,215	(1,769)
<b>Total</b>	<b>3,135</b>	<b>(2,458)</b>
<b>Cumulative Change in Accounting Principles:</b>		
Goodwill impairment	(9,388)	

The reconciliation of income tax attributable to continuing operations computed at the U.S. statutory rate to income tax expense is shown below *(In thousands)*:

	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Tax at U.S. statutory rates	\$ 5,617	35.0%	\$ 3,456	35.0%
Effect of different tax rates in foreign jurisdictions	(387)	(2.4)	(424)	(4.3)
State income taxes, net of federal tax benefit	(2,571)	(16.0)	(1,521)	(15.4)
Effect of nondeductible meals and entertainment expenses	479	3.0	1,075	10.9
Effect of nondeductible goodwill amortization			1,386	14.0
Change in valuation allowances for continuing operations	1,913	11.9	1,468	14.9
Effect of settlement of IRS exam	(73)	(0.4)	(1,961)	(19.9)
Effect of executive compensation limitation	1,504	9.3	351	3.6
Other	530	3.3	(308)	(3.1)
	<b>\$ 7,012</b>	<b>43.7%</b>	<b>\$ 3,522</b>	<b>35.7%</b>



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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax liabilities and assets as of December 31, 2002 are as follows (in thousands):

Deferred tax liabilities:	
Acquisition related intangibles	\$ (1,799)
Tax over book depreciation	(6,149)
Partnership earnings differences	
Compensation	(5,415)
Accumulated comprehensive income unrealized gains	(752)
Other, net	(1,680)
	<hr/>
Total deferred tax liabilities	(15,795)
Deferred tax assets:	
Net operating losses	13,494
Acquisition related items	4,082
Book over tax depreciation	
Commission income receivable (net)	1,499
Alternative minimum tax credit	1,234
Partnership earnings differences	3,897
Bad debt reserves	2,400
Reserve for asset impairments	2,540
Compensation and benefits	17,261
Accumulated comprehensive income minimum pension liability	4,528
Accumulated comprehensive income currency translation	
Other, net	2,250
	<hr/>
Total deferred tax assets	53,185
Valuation allowance for deferred tax assets	(5,576)
	<hr/>
Deferred tax assets, net of valuation allowance	47,609
	<hr/>
Net deferred tax assets	\$ 31,814
	<hr/>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to realize fully the deferred assets, the Company will need to generate future taxable income of approximately \$58.1 million, principally for U.S. purposes.

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The Company has generated losses and has created other net deferred assets in prior years. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future income during the carryforward period are reduced. Net operating losses in the U.S. were carried forward from 2001 for federal income tax purposes. At December 31, 2002, approximately \$12.6 million and \$41.1 million of net operating losses will carry forward to 2003 for federal, state and local income tax purposes respectively. These amounts expire between 2015 and 2022.

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

In 2001, the Company entered into an agreement to sell Realty One and its affiliated companies. In connection with the Realty One sale, the Company incurred a pre-tax loss of approximately \$21.6 million. Under the tax law existing at December 31, 2001, approximately \$12.5 million of the loss could not be deducted for income tax purposes and no income tax benefit has been provided on this portion of the loss in 2001. Subsequent to 2001, the U.S. Treasury Department issued new legislative regulations that allowed for the deduction of the loss for income tax purposes. Sufficient capital gains were generated to offset the loss.

Undistributed earnings of the Company's foreign operations amounted to approximately \$39.0 million in aggregate as of December 31, 2002. Deferred income taxes are not provided at U.S. tax rates on these earnings as it is intended that the earnings will be permanently reinvested outside of the U.S. Any such taxes should not be significant, since U.S. tax rates are no more than 5% in excess of U.K. and French tax rates and goodwill, with respect to the U.K. and French operations, are amortizable for U.S. tax purposes.

During 2002, certain of the Company's foreign operations generated operating losses in aggregate of approximately \$8.1 million. All potential tax benefits pertaining to such losses have been fully reserved due to absence of profits.

In 2000, the Internal Revenue Service ( IRS ) commenced an examination of the income tax returns for the 1998 (January 1, 1998 through September 30, 1998), 1997 and 1996 tax years. In November 2001, the IRS made a final determination to which the Company agreed. The agreed assessment paid by the Company was approximately \$1.1 million, including taxes and interest. The examination will have final resolution when the U. S. Treasury Department issues a determination letter resulting from the review by the Joint Committee on Taxation. The statute of limitations expired on March 31, 2003 and the Company does not anticipate any additional assessments.

**16. Employee Benefit Plans**

**401(k) Retirement Plan**

The Company established a 401(k) savings plan covering substantially all U.S. employees. The Company may make a contribution equal to 25% of the employees' contribution up to a maximum of 6% of the employees' compensation and participants fully vest in employer contributions after 5 years. All contributions to the 401(k) plan are expensed currently in earnings. The Company expensed approximately \$1,026,000 and \$1,201,000 in contributions to the 401(k) plan during 2002 and 2001, respectively.

**Defined Contribution Plan**

Insignia Richard Ellis maintains a defined contribution plan that is available to all of its employees at their option after the completion of six months of service and the attainment of 25 years of age. Insignia Richard Ellis contributions are 3.5% of salary for ages 25 to 30, 4.5% of salary for ages 31 to 35 and 5.5% to 7% of salary for ages 36 and over. Insignia Richard Ellis expensed approximately \$1,598,000 and \$1,430,000 in contributions to the plan during 2002 and 2001, respectively.

**Defined Benefit Plans**

Insignia Richard Ellis maintains two defined benefit plans for certain of its employees. The plans provide for benefits based upon the final salary of participating employees. The funding policy is to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following table summarizes the accumulated benefit obligation, projected benefit obligation, funded status and net periodic pension cost of the Insignia Richard Ellis defined benefit plans as of December 31, 2002 (in thousands):

<b>Accumulated Benefit Obligation</b>	<b>\$ 57,089</b>
<hr/>	
<b>Projected Benefit Obligation ( PBO )</b>	
PBO Beginning of year	\$ 48,355
Service cost	1,158
Interest cost	3,017
Benefits paid net of participant contributions	(566)
Net actuarial loss	4,023
Foreign currency exchange rate changes	5,593
	<hr/>
PBO End of year	61,580
	<hr/>
<b>Change in Plan Assets</b>	
Fair value of plan assets at beginning of year	44,131
Actual return on plan assets	(6,198)
Employer contributions	884
Benefits paid net of participant contributions	(566)
Foreign currency exchange rate changes	4,267
	<hr/>
Fair value of plan assets at end of year	42,518
	<hr/>
Funded status of the plans	(19,062)
Unrecognized net actuarial loss	19,585
Adjustment required to recognize minimum liability	(15,094)
	<hr/>
Net pension liability recognized in the Company's consolidated balance sheets	\$ (14,571)
	<hr/>

	<b>Years Ended</b>	
	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
	<hr/>	<hr/>
	<i>(In thousands)</i>	
<b>Net Periodic Pension Cost</b>		
Service cost	\$ 1,158	\$ 909
Interest cost	3,017	2,657
Return on plan assets	(2,975)	(3,398)
	<hr/>	<hr/>

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	\$ 1,200	\$ 168
	<u>          </u>	<u>          </u>
<b>Assumptions used in determining accounting:</b>		
Discount rate	5.5%	6.0%
Weighted average increase in compensation levels	4.3%	4.5%
Rate of return on plan assets	6.5%	6.5%

The adjustment to accumulated other comprehensive income in 2002 pertaining to the minimum pension liability was approximately \$9.7 million (net of tax benefit of \$3.8 million).

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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**17. Related Party Transactions**

In May 2002, Insignia made a loan in the amount of \$270,000 to an Executive Vice President of the Company. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. Interest on the loan is payable to Insignia in cash on June 30 and December 31 of each year; provided, however, that until December 31, 2004 all interest accrued and payable may, at the discretion of the executive (but subject to Insignia's right of offset as more fully described below), be added to the outstanding principal balance of the loan instead of paid in cash. The loan is repayable on the earlier of (i) June 30, 2005 or (ii) 30 days following a termination of the executive's employment with Insignia for any reason. Pursuant to its rights under the note, beginning on August 1, 2002, Insignia began withholding 50% of any distribution payable to the executive, in respect of the executive's equity interest in the Company's profits interest in IOP, to be applied as a payment of accrued interest first and then outstanding principal. The outstanding balance on the loan was \$269,083 at December 31, 2002.

In March 2002, Insignia made a loan in the amount of \$1.5 million to its Chairman and Chief Executive Officer. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. The loan is payable on or before March 5, 2005. The Company deducts quarterly interest payments due on the loan from certain bonuses payable to the Chairman. To the extent such bonuses are not paid, all accrued and unpaid interest is payable at maturity. The loan and any accrued interest thereon would be forgiven in limited circumstances, such as a significant transaction or change of control. The outstanding balance on the loan at December 31, 2002 was \$1.5 million.

In June 2001, Insignia made a loan in the amount of \$1.5 million to its President. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. The loan becomes due upon the earliest of (i) voluntary termination of the President's employment with Insignia, (ii) the termination of the President's employment with Insignia for cause or (iii) March 15, 2006. Insignia will forgive \$375,000 of the principal amount of the loan and accrued interest thereon on March 15 of the year following each of 2002, 2003, 2004 and 2005 to the extent that actual Net EBITDA equals or exceeds 75% of annual budgeted Net EBITDA for any such year, as approved by the Board of Directors. In addition, if aggregate actual Net EBITDA for fiscal 2002, 2003, 2004 and 2005 equals or exceeds aggregate annual budgeted EBITDA for such years, any outstanding principal amount of the loan and accrued interest thereon, will be forgiven as of March 15, 2006. The outstanding balance on the loan at December 31, 2002 was \$1.5 million.

Pursuant to the Company's Supplemental Stock Purchase and Loan Program, Insignia has loans outstanding to seven employees, including three executive officers, of the Company. These loans were originally made in 1998 and 1999 for the purchase of 158,663 newly issued shares of Insignia's common stock at an average share price of approximately \$12.18. The loans require principal and interest payments, at a fixed rate of 7.5%, in 40 equal quarterly installments ending December 31, 2009. The notes are secured by the common shares and are non-recourse to the employee except to the extent of 25% of the outstanding amount. At December 31, 2002, the loans outstanding totaled \$1,193,000 and are presented as a reduction of stockholders' equity in the Company's consolidated balance sheet.

A director of Insignia is a partner in a law firm that represents Insignia or certain of its affiliates from time to time. The amount of fees paid by the Company to the firm during 2002 and 2001 totaled \$1,363,000 and \$59,000, respectively.



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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**18. Commitments, Contingencies and Other Matters**

**Ordinary Course of Business Claims**

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies including unasserted claims or assessments, which are probable and for which the amount of loss can be reasonably estimated, are accrued in accordance with SFAS No. 5, *Accounting for Contingencies*.

**Indemnification**

In 1998, the Company's former parent entered into a Merger Agreement with Apartment Investment and Management Company (AIMCO), and one of AIMCO's subsidiaries, pursuant to which the former parent was merged into AIMCO. Shortly before the merger, the former parent distributed the stock of Insignia to its shareholders in a spin-off transaction. As a requirement of the Merger Agreement, Insignia entered into an Indemnification Agreement with AIMCO. In the Indemnification Agreement, Insignia agreed generally to indemnify AIMCO against all losses exceeding \$9.1 million that result from: (i) breaches by the Company or former parent of representations, warranties or covenants in the Merger Agreement; (ii) actions taken by or on behalf of former parent prior to the merger; and (iii) the spin-off.

In December 2001, the Company entered into a stock purchase agreement with Real Living, Inc., the purchaser, that provided for the sale of 100% of the stock of Realty One and its affiliated companies. Such affiliated companies included First Ohio Mortgage Corporation, Inc., First Ohio Escrow Corporation, Inc. and Insignia Relocation Management, Inc. As a part of the sale, the Company agreed generally to indemnify the purchaser against all losses up to the purchase price (subject to certain deductible amounts), resulting from the following: (i) breaches by the Company of any representations, warranties or covenants in the stock purchase agreement; (ii) pre-disposition obligations for goods, services, taxes or indebtedness except for those assumed by Real Living, Inc.; (iii) change of control payments made to employees of Realty One; and (iv) any third party losses arising or related to the period prior to the disposition. In addition, the Company provided an indemnification for losses incurred by Wells Fargo Home Mortgage, Inc. (Wells Fargo) and/or the purchaser in respect of (i) mortgage loan files existing on the date of closing; (ii) fraud in the conduct of its home mortgage business; and (iii) the failure to follow standard industry practices in the home mortgage business. The aggregate loss for which the Company is potentially liable to Wells Fargo is limited to \$10 million and the aggregate of any claims made by the purchaser and Wells Fargo shall not exceed the purchase price.

In March 2003, Insignia completed the sale of its New York-based residential real estate service businesses, Insignia Douglas Elliman and Insignia Residential Group, to Montauk Battery Realty, LLC. In connection with the sale, Insignia agreed generally to indemnify the purchaser for the amount of any loss, liability, claim, damage, cost or expense up to the aggregate purchase price (subject to certain deductible amounts) arising, directly or indirectly, from or in connection with the following: (i) breaches by the Company of any representations, warranties, covenants or obligations in the purchase and sale agreement; (ii) claims pending or threatened on the date of sale; (iii) any conduct, action or

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inaction or circumstances related to the operation, management or ownership of the businesses arising or related to the period prior to the sale; and (iv) any liabilities or obligations arising or related to the period prior to the sale.

As of December 31, 2002, the Company was not aware of any matters that would give rise to a material claim under any indemnities and warranties.

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Environmental**

Under various federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate certain hazardous or toxic substances or petroleum-product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from or at the site, including the presence of asbestos containing materials. Insurance for such matters may not be available.

The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. There can be no assurance that Insignia, or any assets owned or controlled by Insignia (as on-site property manager), currently are in compliance with all of such laws and regulations or that Insignia will not become subject to liabilities that arise in whole or in part out of any such laws, rules or regulations. The liability may be imposed even if the original actions were legal and Insignia did not know of, or was not responsible for, the presence of such hazardous or toxic substances. Insignia may also be solely responsible for the entire payment of any liability if it is subject to joint and several liability with other responsible parties who are unable to pay. Insignia may be subject to additional liability if it fails to disclose environmental issues to a buyer or lessee of property. Management is not currently aware of any environmental liabilities that are expected to have a material adverse effect upon the operations or financial condition of the Company.

**Operating Leases**

The Company leases office space and equipment under noncancelable operating leases. Minimum annual rentals under operating leases for the five years ending after December 31, 2002 and thereafter are as follows (in thousands):

2003	\$ 27,276
2004	25,878
2005	24,105
2006	22,306
2007	20,829
Thereafter	64,638
<b>Total minimum payments</b>	<b>\$ 185,032</b>

Rental expense, which is recorded on a straight-line basis, was approximately \$29,705,000 (2002) and \$24,496,000 (2001). Certain of the leases are subject to renewal options and annual escalation based on the Consumer Price Index or annual increases in operating expenses.

### **Convertible Preferred Stock**

Insignia has 375,000 shares, or \$37.5 million, of convertible preferred stock outstanding to investment funds affiliated with Blackacre Capital Management. The convertible preferred stock includes 250,000 shares, or \$25.0 million, of Series A, initially purchased in February 2000, and 125,000 shares, or \$12.5 million, of Series B purchased in June 2002. The initial preferred originally carried a 4% annual dividend and was exchanged in June 2002 for Series A convertible preferred stock. The convertible preferred stock carries an 8.5% annual dividend (totaling approximately \$3.2 million), payable quarterly at Insignia's option in cash or in kind. The Company paid cash dividends of approximately \$1.8 million in 2002.



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**INSIGNIA FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The convertible preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. Upon the dissolution, liquidation or winding up of the Company, the holders of Series A and Series B convertible preferred stock are entitled to receive the stated value of \$100.00 per share (totaling \$37.5 million) plus accrued and unpaid dividends.

**Stock Repurchase**

At December 31, 2002, Insignia held in treasury 1,502,600 repurchased shares of its Common Stock. Such shares were repurchased at an aggregate cost of approximately \$16.2 million and are reserved for issuance upon the exercise of warrants granted in 2001 to certain executive officers, non-employee directors and other employees of the Company.

In July 2002, the Company authorized a stock repurchase program of up to \$5.0 million, subject to compliance with all covenants contained within the Company's existing debt agreements. As of December 31, 2002, the Company had not initiated any stock repurchases under this authorization.

**19. Industry Segments**

As of December 31 2002, Insignia's operating activities encompassed two segments that include (i) commercial real estate services, including principal investment activities, and (ii) residential real estate services. The Company's New York-based residential real estate service businesses were sold in March 2003; therefore, operating activities from continuing operations exclude the operations of these businesses. Residential operations are reported as discontinued operations in the Company's consolidated statements of operations. In 2001, the Company's operating activities included internet-based initiatives as a segment. The Company's segments include businesses that offer similar products and services and are managed separately because of the distinction between such services. The accounting policies of the segments are the same as those used in the preparation of the consolidated financial statements.

The commercial segment provides services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other services. The commercial segment also includes the Company's principal real estate investment activities and fund management. Insignia's commercial segment is comprised of the operations of Insignia/ESG in the U.S., Insignia Richard Ellis in the U.K., Insignia Bourdais in France and other businesses in continental Europe, Asia and Latin America. The Company's unallocated administrative expenses and corporate assets, consisting primarily of cash and property and equipment, are included in "Other" in the segment reporting. The Company's internet-based initiatives launched in 1999 were terminated in 2001.

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following tables summarize certain financial information by industry segment.

<u>Year ended December 31, 2002</u>	<u>Commercial</u>	<u>Residential</u>	<u>Other</u>	<u>Total</u>	
<i>(In thousands)</i>					
<b>Revenues</b>					
Real estate services	\$ 577,544	\$	\$	\$ 577,544	
Property operations	9,195			9,195	
Equity earnings in unconsolidated ventures	3,482			3,482	
Other income, net	589		204	793	
	<u>590,810</u>		<u>204</u>	<u>591,014</u>	
Operating income (loss)	37,318		(14,229)	23,089	
<b>Other income and expense:</b>					
Interest income	2,300		1,636	3,936	
Interest expense	(474)		(8,380)	(8,854)	
Property interest expense	(2,122)			(2,122)	
Income (loss) from continuing operations before income taxes	<u>\$ 37,022</u>	<u>\$</u>	<u>\$ (20,973)</u>	<u>\$ 16,049</u>	
Total assets	\$ 724,330	\$ 62,604	\$ 85,905	\$ 872,839	
Real estate investments, net	134,135			134,135	
Capital expenditures, net	8,388			8,388	
<u>Year ended December 31, 2001</u>	<u>Commercial</u>	<u>Residential</u>	<u>Internet</u>	<u>Other</u>	<u>Total</u>
<b>Revenues</b>					
Real estate services	\$ 613,253	\$	\$	\$	\$ 613,253
Property operations	3,969				3,969
Equity earnings in unconsolidated ventures	13,911				13,911
Other income, net	1,765			331	2,096
	<u>632,898</u>			<u>331</u>	<u>633,229</u>
Operating income (loss)	43,244			(13,186)	30,058
<b>Other income and expenses:</b>					
Interest income	2,084			2,769	4,853
Interest expense	(639)			(11,730)	(12,369)
Property interest expense	(1,744)				(1,744)
Losses from internet investments			(10,263)		(10,263)

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Other expenses	(661)				(661)
Income (loss) from continuing operations before income taxes	\$ 42,284	\$	\$ (10,263)	\$ (22,147)	\$ 9,874
Total assets	\$ 678,091	\$ 147,654	\$ 1,007	\$ 91,630	\$ 918,382
Real estate investments, net	95,710				95,710
Capital expenditures, net	11,704			85	11,789

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**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Certain geographic information is as follows:

	Year ended		Year ended	
	December 31, 2002		December 31, 2001	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$ 406,198	\$ 343,072	\$ 512,754	\$ 339,619
United Kingdom	121,746	115,029	105,896	106,701
France	43,058	30,189		12,800
Other countries	20,012	8,631	14,579	8,603
	<u>\$ 591,014</u>	<u>\$ 496,921</u>	<u>\$ 633,229</u>	<u>\$ 467,723</u>

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangibles.

**20. Fair Values of Financial Instruments**

The fair value estimates of financial instruments are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. The carrying amount reported on the balance sheet for cash and cash equivalents approximates its fair value. Receivables reported on the balance sheet generally consist of property and lease commission receivables and various note receivables. The property and note receivables approximate their fair values. Lease commission receivables are carried at their discounted present value; therefore the carrying amount and fair value amount are the same. The carrying amounts for notes payable and real estate mortgage notes payable approximate their respective fair value because the interest rates generally approximate current market interest rates for similar instruments.

**Table of Contents****INSIGNIA FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****21. Quarterly Financial Data (unaudited)**

	2002				
		Fourth	Third	Second	First
	Total	Quarter	Quarter	Quarter	Quarter
	<i>(In thousands, except per share data)</i>				
Revenues	\$ 591,014	\$ 172,332	\$ 155,414	\$ 139,225	\$ 124,043
Income (loss) from continuing operations	9,037	6,254	2,779	905	(901)
Discontinued operations	9,098	80	5,990	2,270	758
Income (loss) before cumulative effect of a change in accounting principle	18,135	6,334	8,769	3,175	(143)
Cumulative effect of a change in accounting principle	(20,635)				(20,635)
Net (loss) income	\$ (2,500)	\$ 6,334	\$ 8,769	\$ 3,175	\$ (20,778)
<b>Per share amounts:</b>					
Earnings per share - basic					
Income (loss) from continuing operations	\$ 0.30	\$ 0.23	\$ 0.09	\$ 0.03	\$ (0.05)
Discontinued operations	0.39	0.01	0.25	0.09	0.03
Income (loss) before cumulative effect of a change in accounting principle	0.69	0.24	0.34	0.12	(0.02)
Cumulative effect of a change in accounting change in accounting principle	(0.89)				(0.90)
Net (loss) income	(0.20)	\$ 0.24	0.34	0.12	(0.92)
Earnings per share - assuming dilution					
Income (loss) from continuing operations	0.29	0.23	0.09	0.03	(0.05)
Discontinued operations	0.38	0.01	0.25	0.09	0.03
Income (loss) before cumulative effect of a change in accounting principle	0.67	0.24	0.34	0.12	(0.02)
Cumulative effect of a change in accounting principle	(0.87)				(0.90)
Net (loss) income	\$ (0.20)	\$ 0.24	\$ 0.34	\$ 0.12	\$ (0.92)