CB RICHARD ELLIS GROUP INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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

For the Transition Period from to

Commission File Number 001-32205

CB RICHARD ELLIS GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-3391143** (I.R.S. Employer Identification Number)
11150 Santa Monica Boulevard, Suite 1600 **Los Angeles, California** (Address of principal executive offices)	**90025** (Zip Code)
(310) 405-8900 (Registrant s telephone number, including area code)	(Former name, former address and former fiscal year if changed since last report)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

The number of shares of Class A common stock outstanding at July 31, 2007 was 229,277,183.

FORM 10-Q

June 30, 2007

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PART I FINANCIAL INFORMATION

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

	June 30, 2007	**December 31, 2006**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 438,168	$ 244,476
Restricted cash	77,576	212,938
Receivables, less allowance for doubtful accounts of $29,303 and $22,190 at June 30, 2007 and December 31, 2006, respectively	903,329	880,809
Warehouse receivables	164,284	103,992
Prepaid expenses	82,006	75,558
Deferred tax assets, net	150,292	143,024
Real estate under development	120,010	40,706
Real estate and other assets held for sale	126,611	113,844
Trading securities	2,829	355,503
Other current assets	60,105	71,217
Total Current Assets	2,125,210	2,242,067
Property and equipment, net	184,128	180,546
Goodwill	2,181,201	2,188,352
Other intangible assets, net of accumulated amortization of $79,883 and $55,065 at June 30, 2007 and December 31, 2006, respectively	418,879	441,073
Deferred compensation assets	241,209	203,271
Investments in and advances to unconsolidated subsidiaries	233,739	227,799
Real estate under development	197,819	159,893
Real estate held for investment	216,045	149,805
Other assets, net	151,800	151,825
Total Assets	$ 5,950,030	$ 5,944,631
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 388,334	$ 482,194
Deferred purchase consideration	35,703	159,676
Compensation and employee benefits payable	324,518	330,826
Accrued bonus and profit sharing	384,400	524,184
Income taxes payable	50,693	48,576
Short-term borrowings:		
Warehouse lines of credit	164,284	103,992
Revolving line of credit	41,701	
Other	61,277	22,216
Total short-term borrowings	267,262	126,208
Current maturities of long-term debt	11,632	11,836
Notes payable on real estate	229,252	133,037
Liabilities related to real estate and other assets held for sale	65,204	87,289
Other current liabilities	2,885	35,961
Total Current Liabilities	1,759,883	1,939,787
Long-Term Debt:		
Senior secured term loans	1,931,500	2,062,000
9¾% senior notes		3,310
Other long-term debt	1,334	1,363
Total Long-Term Debt	1,932,834	2,066,673
Deferred compensation liability	250,872	225,179
Deferred tax liabilities, net	18,882	80,603
Pension liability	59,474	57,971
Non current tax liabilities	71,149	
Notes payable on real estate	154,750	132,453
Other liabilities	170,430	182,188
Total Liabilities	4,418,274	4,684,854
Commitments and contingencies		
Minority interest	162,759	78,136
Stockholders Equity:		

Class A common stock; $0.01 par value; 325,000,000 shares authorized; 229,162,067 and 227,474,835 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	2,292	2,275
Additional paid-in capital	655,902	610,406
Notes receivable from sale of stock	(60)	(60)
Accumulated earnings	726,137	602,086
Accumulated other comprehensive loss	(15,274)	(33,066)
Total Stockholders Equity	1,368,997	1,181,641
Total Liabilities and Stockholders Equity	$ 5,950,030	$ 5,944,631

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

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Revenue	$ 1,490,363	$ 903,544	$ 2,704,324	$ 1,654,816
Costs and expenses:				
Cost of services	791,605	479,812	1,441,278	891,438
Operating, administrative and other	469,754	283,598	881,691	548,759
Depreciation and amortization	27,511	12,255	54,879	27,185
Merger-related charges	2,877		34,732	
Operating income	198,616	127,879	291,744	187,434
Equity income from unconsolidated subsidiaries	25,915	8,428	30,164	16,841
Minority interest (income) expense	(165)	1,580	2,735	1,809
Other loss			37,534	
Interest income	5,972	2,976	12,985	6,566
Interest expense	42,173	13,352	84,155	27,287
Loss on extinguishment of debt		22,255		22,255
Income before provision for income taxes	188,495	102,096	210,469	159,490
Provision for income taxes	47,360	37,842	57,357	58,326
Net income	$ 141,135	$ 64,254	$ 153,112	$ 101,164
Basic income per share	$ 0.61	$ 0.28	$ 0.67	$ 0.45
Weighted average shares outstanding for basic income per share	230,543,095	225,964,727	230,105,706	225,763,242
Diluted income per share	$ 0.59	$ 0.27	$ 0.65	$ 0.43
Weighted average shares outstanding for diluted income per share	237,475,584	233,655,941	237,206,344	233,304,306

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

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 153,112	$ 101,164
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	54,879	27,185
Amortization and write-off of deferred financing costs	3,744	13,851
Amortization and write-off of long-term debt discount		1,648
Deferred compensation deferrals	22,043	14,560
Gain on sale of servicing rights and other assets	(2,030)	(4,323)
Loss on trading securities	33,654	
Loss on interest rate swaps	3,880	
Equity income from unconsolidated subsidiaries	(30,164)	(16,841)
Distribution of earnings from unconsolidated subsidiaries	29,968	14,089
In-kind distributions from unconsolidated subsidiaries	(2,710)	
Minority interest expense	2,735	1,809
Provision for doubtful accounts	8,070	1,434
Deferred income taxes	658	(3,301)
Compensation expense and merger-related expense related to stock options and stock awards	22,593	4,842
Incremental tax benefit from stock options exercised	(15,111)	(8,482)
Tenant concessions received	4,989	5,809
Proceeds from sale of trading securities	320,047	
(Increase) decrease in receivables	(7,401)	19,183
Increase in deferred compensation assets	(37,938)	(13,045)
Decrease (increase) in prepaid expenses and other assets	4,321	(41,510)
Increase in real estate held for sale and under development	(107,435)	
Increase in notes payable on real estate held for sale and under development	42,969	
Decrease in accounts payable and accrued expenses	(106,399)	(51,883)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(160,559)	(110,166)
Decrease in income taxes payable	(30,988)	(63,944)
(Decrease) increase in other liabilities	(1,634)	30,368
Other operating activities, net	598	83
Net cash provided by (used in) operating activities	205,891	(77,470)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(26,992)	(27,958)
Acquisition of businesses (other than Trammell Crow Company) including net assets acquired, intangibles and goodwill, net of cash acquired	(36,995)	(49,527)
Cash paid for acquisition of Trammell Crow Company	(124,732)	
Contributions to investments in unconsolidated subsidiaries, net	(14,754)	(4,895)
Proceeds from the sale of servicing rights and other assets	18,851	3,652
Additions to real estate held for investment	(73,454)	
Decrease in restricted cash	135,404	1,321
Other investing activities, net	14,129	(912)
Net cash used in investing activities	(108,543)	(78,319)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(130,500)	(265,250)
Proceeds from revolving credit facility	73,186	278,000
Repayment of revolving credit facility	(34,638)	(30,000)
Repayment of 11¼% senior subordinated notes		(164,669)
Repayment of 9¾% senior notes	(3,310)	
Proceeds from notes payable on real estate held for investment	63,835	
Repayment of notes payable on real estate held for investment	(8,147)	
Proceeds from (repayment of) short-term borrowings and other loans, net	38,988	(5,139)
Proceeds from exercise of stock options	8,160	4,444
Incremental tax benefit from stock options exercised	15,111	8,482
Minority interest contributions, net	74,653	8,827
Payment of deferred financing fees	(2,449)	(5,099)

Other financing activities, net	(551)	(425)
Net cash provided by (used in) financing activities	94,338	(170,829)
Effect of currency exchange rate changes on cash and cash equivalents	2,006	4,618
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	193,692	(322,000)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	244,476	449,289
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 438,168	$ 127,289
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 78,203	$ 35,493
Income taxes, net of refunds	$ 88,822	$ 125,345

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 (which may be referred to in these financial statements as we, us, and our), 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). 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, 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.

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock (the IPO). In connection with the IPO, we issued and sold 23,180,292 shares of our Class A common stock and received aggregate net proceeds of approximately $135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 48,819,708 shares of our Class A common stock and received net proceeds of approximately $290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 687,900 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately $4.1 million, after deducting underwriting discounts and commissions. Lastly, on December 13, 2004 and November 15, 2005, we completed secondary public offerings that provided further liquidity for some of our stockholders. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004, July 14, 2004, December 13, 2004 and November 15, 2005.

In December 2006, we expanded our global leadership as we completed the acquisition of Trammell Crow Company, our largest acquisition to date. On December 20, 2006, pursuant to an Agreement and Plan of Merger dated October 30, 2006 (the Trammell Crow Company Acquisition Agreement), by and among us, A-2 Acquisition Corp., a Delaware corporation and our wholly owned subsidiary (Merger Sub), and Trammell Crow Company, the Merger Sub was merged with and into the Trammell Crow Company (the Trammell Crow Company Acquisition). Trammell Crow Company was the surviving corporation in the Trammell Crow Company Acquisition and upon the closing of the Trammell Crow Company Acquisition became our indirect wholly owned subsidiary. We have no substantive operations other than our investment in CBRE and Trammell Crow Company.

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 and provide development services under the Trammell Crow brand name. Our business is focused on

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

1. Nature of Operations (Continued)

several service competencies, including tenant representation, property/agency leasing, property sales, development services, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, commercial property and corporate facilities management, valuation, proprietary research and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. 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 GAAP 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 to the current period presentation. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2007. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our current Annual Report on Form 10-K, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2006.

Pursuant to Emerging Issues Task Force (EITF) Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred,* and EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent,* we concluded that the accounting for certain reimbursements (primarily salaries and related charges) related to our facilities and property management operations should be presented on a grossed up versus a net expense basis. Accordingly, we reclassified such reimbursements from cost of services to revenue for the three and six months ended June 30, 2006 to be consistent with the presentation for the three and six months ended June 30, 2007. As a result, amounts reflected as Revenue and Cost of Services in the consolidated statements of operations for the three and six months ended June 30, 2006 have been increased from the amounts previously reported by $67.3 million and $138.5 million, respectively. This reclassification had no impact on operating income, net income, earnings per share or stockholders equity.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, or SFAS No. 150. Certain provisions of SFAS No. 150 would have required us to classify non-controlling interests in consolidated limited life subsidiaries as liabilities adjusted to their settlement values in our consolidated financial statements. In November 2003, the FASB indefinitely deferred application of the measurement and recognition provisions (but not the disclosure requirements)

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

2. Basis of Presentation (Continued)

of SFAS No. 150 with respect to these non-controlling interests. As of June 30, 2007, the estimated settlement value of non-controlling interests in our consolidated limited life subsidiaries approximates the carrying value of $85.9 million, which is included in minority interest in the accompanying consolidated balance sheets, since the majority of the assets of our consolidated limited life subsidiaries were acquired in 2007. As of December 31, 2006, the estimated settlement value of non-controlling interests in our consolidated limited life subsidiaries was not significant.

3. Trammell Crow Company Acquisition

On December 20, 2006, pursuant to the Trammell Crow Company Acquisition Agreement, by and among us, Merger Sub (our wholly owned subsidiary) and Trammell Crow Company, the Merger Sub was merged with and into Trammell Crow Company. Trammell Crow Company was the surviving corporation in the Trammell Crow Company Acquisition and upon the closing of the Trammell Crow Company Acquisition became our indirect wholly owned subsidiary. We acquired Trammell Crow Company to expand our global leadership and to strengthen our ability to provide integrated account management and comprehensive real estate services for our clients.

Pursuant to the terms of the Trammell Crow Company Acquisition Agreement, (1) each issued and outstanding share of Trammell Crow Company Common Stock (other than treasury shares), par value $0.01 per share, was converted into the right to receive $49.51 in cash, without interest (the Trammell Crow Company Common Stock Merger Consideration), (2) all outstanding options to acquire Trammell Crow Company Common Stock that were vested as of December 20, 2006 were cancelled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of the Trammell Crow Company Common Stock Merger Consideration over the per share exercise price of the option, multiplied by the number of shares of Trammell Crow Company Common Stock subject to the option, less any applicable withholding taxes and (3) all outstanding stock units with underlying shares of Trammell Crow Company Common Stock held in the Trammell Crow Company Employee Stock Purchase Plan were converted into the right to receive $49.51 in cash, without interest. Following the Trammell Crow Company Acquisition, the Trammell Crow Company Common Stock was delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934.

The funding to complete the Trammell Crow Company Acquisition, as well as the refinancing of substantially all of the outstanding indebtedness of Trammell Crow Company (other than notes payable on real estate), was obtained through senior secured term loan facilities for an aggregate principal amount of up to $2.2 billion (see Note 10).

The aggregate preliminary purchase price for the Trammell Crow Company Acquisition was approximately $1.9 billion, which includes: (1) $1.8 billion in cash paid for shares of Trammell Crow Company s outstanding common stock, at $49.51 per share, including outstanding stock units held in the Trammell Crow Company Employee Stock Purchase Plan, (2) cash payments of $120.0 million to holders of Trammell Crow Company s vested options and (3) $18.7 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 Trammell Crow Company Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, December 20, 2006. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. The

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

3. Trammell Crow Company Acquisition (Continued)

goodwill is not deductible for tax purposes. 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 other intangible assets, investments in and advances to unconsolidated subsidiaries and deferred tax assets, is still preliminary. Additionally, the various real estate assets acquired are being reflected at Trammell Crow Company s historical basis until the appraisal process has been completed. Lastly, adjustments to the estimated liabilities assumed in connection with the Trammell Crow Company Acquisition, as well as deferred tax liabilities and minority interest, may still be required. As of June 30, 2007, approximately $35.7 million of the total purchase price (excluding direct costs) has not been paid out and is included in restricted cash in the accompanying consolidated balance sheets along with a corresponding current liability of $35.7 million, which is included in deferred purchase consideration in the accompanying consolidated balance sheets. These amounts relate to outstanding shares of Trammell Crow Company common stock that have not yet been tendered. Payment in full will be made as share certificates are tendered.

The Trammell Crow Company Acquisition gave rise to the acceleration of vesting of some restricted shares of Trammell Crow Company common stock as a result of the change in control of Trammell Crow Company as well as costs associated with exiting contracts and other contractual obligations. Additionally, the Trammell Crow Company Acquisition has given rise to the consolidation and elimination of some Trammell Crow Company duplicate facilities and redundant employees as well as lawsuits involving Trammell Crow Company. As a result, we have accrued certain liabilities in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* These liabilities assumed in connection with the Trammell Crow Company Acquisition consist of the following (dollars in thousands):

	2006 Charge to Goodwill	2006 Utilization	2007 Adjustments	2007 Utilization	To be Utilized at June 30, 2007
Change of control payments	$ 36,461	$ (35,727)	$	$ (734)	$
Costs associated with exiting contracts and other contractual obligations	29,635	(500)	(1,666)	(15,002)	12,467
Severance	18,422		1,638	(9,950)	10,110
Lease termination costs	11,085		(132)	(1,322)	9,631
Legal settlements anticipated	6,212		(594)	(1,046)	4,572
	$ 101,815	$ (36,227)	$ (754)	$ (28,054)	$ 36,780

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

3. Trammell Crow Company Acquisition (Continued)

Unaudited pro forma results, assuming the Trammell Crow Company Acquisition had occurred as of January 1, 2006, for the three and six months ended June 30, 2006 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 Trammell Crow Company Acquisition as well as higher interest expense as a result of debt incurred to finance the Trammell Crow Company Acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the Trammell Crow Company Acquisition occurred on January 1, 2006 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended June 30, 2006	**Six Months Ended June 30, 2006**
Revenue	$ 1,142,608	$ 2,109,652
Operating income	126,760	164,087
Net income	46,042	47,797
Basic income per share	$ 0.20	$ 0.21
Weighted average shares outstanding for basic income per share	225,964,727	225,763,242
Diluted income per share	$ 0.19	$ 0.20
Weighted average shares outstanding for diluted income per share	233,655,941	233,304,306

4. Restricted Cash

Included in the accompanying consolidated balance sheets as of June 30, 2007 and December 31, 2006, is restricted cash of $77.6 million and $212.9 million, respectively, which includes restricted cash set aside to cover deferred purchase consideration associated with the Trammell Crow Company Acquisition. The deferred purchase consideration relates to outstanding shares of Trammell Crow Company common stock that have not yet been tendered. Payment in full is being made as share certificates are tendered. The restricted cash balances also include escrow accounts acquired as a result of the Trammell Crow Company Acquisition as well as other strategic in-fill acquisitions completed during 2006 and cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the United Kingdom (U.K.).

5. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for the six months ended June 30, 2007 (dollars in thousands):

	Americas	**EMEA**	**Asia Pacific**	**Global Investment Management**	**Development Services**	**Total**
Balance at January 1, 2007	$ 1,717,334	$ 327,858	$ 32,081	$ 38,162	$ 72,917	$ 2,188,352
Purchase accounting adjustments related to acquisitions	(12,154)	4,868	37		186	(7,063)
Adoption of FIN 48 (see Note 22)	(5,359)					(5,359)
Foreign exchange movement	605	3,217	1,331	118		5,271
Balance at June 30, 2007	$ 1,700,426	$ 335,943	$ 33,449	$ 38,280	$ 73,103	$ 2,181,201

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

5. Goodwill and Other Intangible Assets (Continued)

Other intangible assets totaled $418.9 million and $441.1 million, net of accumulated amortization of $79.9 million and $55.1 million, as of June 30, 2007 and December 31, 2006, respectively, and are comprised of the following (dollars in thousands):

	As of June 30, 2007		As of December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortizable intangible assets				
Trademarks	$ 63,700		$ 63,700	
Trade name	103,826		103,826	
	$ 167,526		$ 167,526	
Amortizable intangible assets				
Customer relationships	$ 220,000	$ (5,989)	$ 220,000	$ (60)
Backlog and incentive fees	46,428	(33,503)	44,630	(18,780)
Management contracts	29,273	(23,458)	28,585	(21,333)
Loan servicing rights	21,946	(10,109)	22,143	(9,365)
Other	13,589	(6,824)	13,254	(5,527)
	$ 331,236	$ (79,883)	$ 328,612	$ (55,065)
Total intangible assets	$ 498,762	$ (79,883)	$ 496,138	$ (55,065)

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. In connection with the Trammell Crow Company Acquisition, an $84.0 million trade name was separately identified, which represents the Trammell Crow trade name to be used in providing development services by us on an indefinite basis. Both the trademarks and the trade names have indefinite useful lives and accordingly are not being amortized.

Customer relationships represent intangible assets identified in the Trammell Crow Company Acquisition relating to existing relationships primarily in Trammell Crow Company s brokerage, property management, project management and facilities management lines of business. These intangible assets are being amortized over estimated useful lives of up to 20 years.

Backlog and incentive fees represent the fair value of net revenue backlog and incentive fees acquired as part of the Trammell Crow Company Acquisition as well as other in-fill acquisitions. These intangible assets are being amortized over estimated useful lives of up to one year.

Management contracts are primarily comprised of property management contracts in the United States (U.S.), Canada, the U.K., France and other European countries, 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.

CB RICHARD ELLIS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. Goodwill and Other Intangible Assets (Continued)

Loan servicing rights represent the fair value of servicing assets in our mortgage brokerage 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 mainly represent other intangible assets acquired as a result of the Insignia Acquisition, including an intangible asset recognized for non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France. Additionally, certain contract intangibles acquired in the Trammell Crow Company Acquisition have also been included here. All other intangible assets are being amortized over estimated useful lives of up to 20 years.

Amortization expense related to intangible assets was $11.5 million and $1.9 million for the three months ended June 30, 2007 and 2006, respectively, and $23.8 million and $6.9 million for the six months ended June 30, 2007 and 2006, respectively. The estimated annual amortization expense for each of the years ending December 31, 2007 through December 31, 2011 approximates $47.2 million, $18.1 million, $16.5 million, $16.0 million and $14.1 million, respectively.

6. 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Development Services:				
Revenue	$ 15,506	$	$ 27,105	$
Operating income	$ 27,990	$	$ 31,339	$
Net income	$ 23,008	$	$ 21,713	$
Other:				
Revenue	$ 163,624	$ 155,990	$ 442,925	$ 258,374
Operating income	$ 11,422	$ 31,172	$ 62,258	$ 56,556
Net income (loss)	$ 9,759	$ (91,384)	$ 54,681	$ 105,029
Total:				
Revenue	$ 179,130	$ 155,990	$ 470,030	$ 258,374
Operating income	$ 39,412	$ 31,172	$ 93,597	$ 56,556
Net income (loss)	$ 32,767	$ (91,384)	$ 76,394	$ 105,029

Our Global Investment Management segment involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage and other professional services to these equity investees on an arm s length basis and earned revenues from these unconsolidated subsidiaries.

In connection with the Trammell Crow Company Acquisition, we acquired Trammell Crow Company s investments in unconsolidated subsidiaries. We have agreements to provide development and brokerage services to certain of our unconsolidated development subsidiaries on an arm s length basis and earned revenues from these unconsolidated subsidiaries.

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

7. Real Estate and Other Assets Held for Sale and Related Liabilities

Real estate and other assets held for sale include completed real estate projects or land for sale in their present condition that have met all of the held for sale criteria of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and other assets directly related to such projects. Liabilities related to real estate and other assets held for sale have been included as a single line item in the accompanying consolidated balance sheets. In accordance with SFAS No. 144, certain assets classified as held for sale at June 30, 2007, or sold in the six months ended June 30, 2007, that were not classified as held for sale at December 31, 2006, were reclassified to real estate and other assets held for sale in the accompanying consolidated balance sheets as of December 31, 2006.

Real estate and other assets held for sale and related liabilities were as follows (dollars in thousands):

	June 30, 2007	**December 31, 2006**
Assets:		
Real estate held for sale (see Note 8)	$ 122,132	$ 109,454
Other current assets	514	2,775
Other assets	3,965	1,615
Total real estate and other assets held for sale	126,611	113,844
Liabilities:		
Accrued expenses	3,924	5,478
Notes payable on real estate held for sale (see Note 9)	60,890	81,543
Other current liabilities	217	185
Other liabilities	173	83
Total liabilities related to real estate and other assets held for sale	65,204	87,289
Net real estate and other assets held for sale	$ 61,407	$ 26,555

8. Real Estate

We provide build-to-suit services for our clients and also develop or purchase certain projects which we intend to sell to institutional investors upon project completion or redevelopment. Therefore, we have ownership of real estate until such projects are sold. Certain real estate assets owned by us secure the outstanding balances of underlying mortgage or construction loans. The majority of our real estate is included in our Development Services segment (see Note 21). Real estate owned by us consisted of the following (dollars in thousands):

	June 30, 2007	**December 31, 2006**
Real estate under development (current)	$ 120,010	$ 40,706
Real estate included in assets held for sale (see Note 7)	122,132	109,454
Real estate under development (non current)	197,819	159,893
Real estate held for investment(1)	216,045	149,805
Total real estate(2)	$ 656,006	$ 459,858

(1) Net of accumulated depreciation of $2.2 million at June 30, 2007.

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

8. Real Estate (Continued)

(2) Includes balances for lease intangibles and tenant origination costs of $7.8 million and $3.9 million, respectively, at June 30, 2007 and $2.6 million and $3.0 million, respectively, at December 31, 2006. We record lease intangibles and tenant origination costs upon acquiring buildings with in-place leases. The balances are shown net of amortization, which is recorded as an increase to or a reduction of rental income for lease intangibles and as amortization expense for tenant origination costs.

9. Notes Payable on Real Estate

We had loans secured by real estate (the majority of which were construction loans), which consisted of the following (dollars in thousands):

	June 30, 2007	**December 31, 2006**
Current portion of notes payable on real estate	$ 229,252	$ 133,037
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 7)	60,890	81,543
Total notes payable on real estate, current portion	290,142	214,580
Notes payable on real estate, non current portion	154,750	132,453
Total notes payable on real estate	$ 444,892	$ 347,033

At June 30, 2007, $16.3 million of the current portion and $0.9 million of the non current portion of notes payable on real estate were recourse to us, beyond being recourse to the single-purpose entity that held the real estate asset and was the primary obligor on the note payable.

We have one participating mortgage loan obligation related to a real estate project. The mortgage lender participates in net operating cash flow of the mortgaged real estate project, if any, and net proceeds upon the sale of the project. The lender receives 6.0% fixed interest on the outstanding balance of its note, compounded monthly, and participates in 35.0% to 80.0% of net proceeds based on reaching various internal rates of return. The amount of the participating liability was $4.1 million and $6.1 million at June 30, 2007 and December 31, 2006, respectively.

10. Debt

We had short-term borrowings of $267.3 million and $126.2 million with related average interest rates of 6.3% and 5.8% as of June 30, 2007 and December 31, 2006, respectively.

Since 2001, we have maintained a credit agreement with Credit Suisse (CS) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On December 20, 2006, we entered into an amendment and restatement to our credit agreement (the Credit Agreement) to, among other things, allow the consummation of the Trammell Crow Company Acquisition and the incurrence of senior secured term loan facilities for an aggregate principal amount of up to $2.2 billion.

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

10. Debt (Continued)

Our Credit Agreement includes the following: (1) a $600.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on June 24, 2011, (2) a $1.1 billion tranche A term loan facility, requiring quarterly principal payments beginning March 31, 2009 (previously set to commence on March 31, 2008, but adjusted as a result of our prepayment of all of the 2008 required payments in the current year) through September 30, 2011, with the balance payable on December 20, 2011, (3) a $1.1 billion tranche B term loan facility, requiring quarterly principal payments of $2.75 million beginning March 31, 2007 through September 30, 2013, with the balance payable on December 20, 2013 and (4) the ability to borrow an additional $300.0 million, subject to the satisfaction of customary conditions. The revolving credit facility allows for borrowings outside of the U.S., with sub-facilities of $5.0 million available to one of our Canadian subsidiaries, $35.0 million available to one of our Australian and New Zealand subsidiaries and $50.0 million available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision contained in the Credit Agreement.

Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either the applicable fixed rate plus 1.2375% or the daily rate plus 0.2375% for the first year; thereafter, at the applicable fixed rate plus 0.575% to 1.1125% or the daily rate plus 0% to 0.1125%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of December 31, 2006, we had no revolving credit facility principal outstanding. As of June 30, 2007, we had $41.7 million of revolving credit facility principal outstanding with a related weighted average interest rate of 7.7%, which is included in short-term borrowings in the accompanying consolidated balance sheets. As of June 30, 2007, letters of credit totaling $11.6 million were outstanding. These letters of credit primarily relate to our outstanding indebtedness as well as letters of credit issued in connection with development activities in our Development Services segment and reduce the amount we may borrow under the revolving credit facility.

Borrowings under the tranche A term loan facility bear interest, based at our option, on either the applicable fixed rate plus 1.50% or the daily rate plus 0.50% for the first year, thereafter, at the applicable fixed rate plus 0.75% to 1.375% or the daily rate plus 0% to 0.375%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in our Credit Agreement). Borrowings under the tranche B term loan facility bear interest, based at our option, on either the applicable fixed rate plus 1.50% or the daily rate plus 0.50%. During the six months ended June 30, 2007, we repaid $125.0 million and $5.5 million of our tranche A and tranche B loan facilities, respectively. As of June 30, 2007 and December 31, 2006, we had $848.0 million and $1.1 billion of tranche A and tranche B term loan facilities principal outstanding, respectively, each with a related weighted average interest rate of 6.8%, which are included in the accompanying consolidated balance sheets.

On February 26, 2007, we entered into two interest rate swap agreements with a total notional amount of $1.4 billion and a maturity date of December 31, 2009. The purpose of these interest rate swap agreements is to hedge potential changes to our cash flows due to the variable interest nature of our senior secured term loan facilities. On March 20, 2007, these interest rate swaps were designated as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. We incurred a loss on these interest rate swaps from the date we entered into the swaps up to the designation date of approximately $3.9 million, which is included in other loss in the accompanying

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

10. Debt (Continued)

consolidated statement of operations. There was no hedge ineffectiveness for the period from March 20, 2007 through June 30, 2007. As of June 30, 2007, the fair value of these interest rate swap agreements was $4.5 million and is included in other assets with the corresponding offset to accumulated other comprehensive income included in the accompanying consolidated balance sheets.

The Credit Agreement is jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. Borrowings under our Credit Agreement are secured by a pledge of substantially all of the capital stock of our U.S. subsidiaries and 65% of the capital stock of certain non-U.S. subsidiaries. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment.

Our Credit Agreement contains 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, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of interest and a maximum leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued $200.0 million in aggregate principal amount of 9¾% senior notes, which were due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes were 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 were jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrued at a rate of 9¾% per year and was payable semi-annually in arrears on May 15 and November 15. Before May 15, 2006, we were permitted to 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, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem $70.0 million in aggregate principal amount, or 35.0%, of our 9¾% senior notes. Pursuant to the terms of the Trammell Crow Company Acquisition Agreement, on November 3, 2006 we caused CBRE to launch a tender offer and consent solicitation for all of our outstanding 9¾% senior notes, which resulted in the repurchase of all but $3.3 million of these notes. The remaining $3.3 million of the 9¾% senior notes were redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date, which we elected to redeem during the three months ended June 30, 2007.

On March 2, 2007, we entered into a $50.0 million credit note with Wells Fargo Bank for the purpose of purchasing eligible investments, which include cash equivalents, agency securities, A1/P1 commercial paper and eligible money market funds. The proceeds of this note will not be made generally available to us, but will instead be deposited in an investment account maintained by Wells Fargo Bank and will be used and applied solely to purchase eligible investment securities. Borrowings under the revolving credit note will bear interest at 0.25% and the note will terminate on December 3, 2007, which can be extended

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

10. Debt (Continued)

by a written amendment. As of June 30, 2007, there were no amounts outstanding under this revolving credit note.

Our wholly owned subsidiary, CBRE Melody, has credit agreements with Washington Mutual Bank, FA (WaMu) and JP Morgan Chase Bank, N.A. (JP Morgan) for the purpose of funding mortgage loans that will be resold.

Effective July 1, 2006, CBRE Melody entered into a $200.0 million multifamily mortgage loan repurchase agreement, or Repo Agreement, with WaMu. The Repo Agreement continues indefinitely unless or until 30 days written notice is delivered, prior to the termination date, by either CBRE Melody or WaMu. Under the Repo Agreement, CBRE Melody will originate multifamily loans and sell such loans to one or more investors, including Fannie Mae, Freddie Mac, Ginnie Mae or any of several private institutional investors. WaMu has agreed to purchase certain qualifying mortgage loans after such loans have been originated, but prior to sale to one of the aforementioned investors, on a servicing retained basis, subject to CBRE Melody s obligation to repurchase the mortgage loan.

On November 15, 2005, CBRE Melody entered into a secured credit agreement with JP Morgan to establish a warehouse line of credit. This agreement provides for a $250.0 million senior secured revolving line of credit, bears interest at the daily Chase London LIBOR rate plus 0.75% and expired on November 14, 2006. On November 14, 2006, CBRE Melody executed an amendment to the credit agreement whereby the maturity date was extended to November 30, 2007.

During the six months ended June 30, 2007, we had a maximum of $188.1 million warehouse lines of credit principal outstanding. As of June 30, 2007 and December 31, 2006, we had $164.3 million and $104.0 million of warehouse lines of credit principal outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $164.3 million and $104.0 million of mortgage loans held for sale (warehouse receivables), which represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased as of June 30, 2007 and December 31, 2006, respectively, and which are also included in the accompanying consolidated balance sheets.

On July 31, 2006, CBRE Melody entered into a $60.0 million revolving credit note with JP Morgan for the purpose of purchasing qualified investment securities, which include but are not limited to U.S. Treasury and Agency securities. The proceeds of this note will not be made generally available to CBRE Melody, but will instead be deposited in an investment account maintained by JP Morgan and will be used and applied solely to purchase qualified investment securities. Borrowings under the revolving credit note will bear interest at 0.50%. Initially, all outstanding principal on this note and all accrued interest unpaid was to be due and payable on demand, or if no demand was made, then on or before July 31, 2007. On November 14, 2006, CBRE Melody executed an amendment extending the maturity of this note to November 30, 2007. Effective May 1, 2007, CBRE Melody executed an amendment, which increased the revolving credit note to $100.0 million and extended the maturity date to April 30, 2008. As of June 30, 2007 and December 31, 2006, there were no amounts outstanding under this revolving credit note.

On April 30, 2007, Trammell Crow Company Acquisitions II, L.P. (Acquisitions II), a legal entity within our Development Services segment that we consolidate, entered into a $100.0 million revolving credit agreement with WestLB AG, as administrative agent for a lender group. Borrowings under the

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

10. Debt (Continued)

credit agreement will be used to fund acquisitions of real estate prior to receipt of capital contributions of Acquisitions II investors and permanent project financing. This agreement bears interest at the daily British Bankers Association LIBOR rate plus 0.65% and expires on April 30, 2010. Subject to certain conditions, Acquisitions II can extend the maturity date of the credit facility for an additional term of not longer than twelve months and may increase the maximum commitment to an amount not exceeding $150.0 million. Borrowings under the line are non-recourse to us and are secured by the capital commitments of the investors in Acquisitions II. As of June 30, 2007, there was $47.8 million outstanding under this revolving credit note, which is included in short-term borrowings in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995 (now known as CB Richard Ellis Investors), we issued approximately $20.0 million in aggregate principal amount of senior notes. 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. The interest rate on the Westmark senior notes is currently equal to the interest rate in effect with respect to amounts outstanding under our Credit Agreement plus 12 basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.2 million as of June 30, 2007 and December 31, 2006.

In January 2006, we acquired an additional stake in our Japanese affiliate IKOMA CB Richard Ellis KK (IKOMA), which increased our total equity interest in IKOMA to 51%. As a result, we now consolidate IKOMA s financial statements, which included debt. IKOMA utilized short-term borrowings to assist in funding its working capital requirements. As of June 30, 2007, there was no amount of outstanding debt for IKOMA. As of December 31, 2006, IKOMA had $6.7 million of debt outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the U.K. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of June 30, 2007 and December 31, 2006, $2.1 million and $2.2 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. As of June 30, 2007 and December 31, 2006, there were no amounts outstanding under this facility.

11. 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.

CB RICHARD ELLIS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Commitments and Contingencies (Continued)

We had outstanding letters of credit totaling $10.4 million as of June 30, 2007, excluding letters of credit related to our subsidiaries outstanding reserves for claims under certain insurance programs and indebtedness. These letters of credit are primarily executed by us in the normal course of business of our Development Services segment. The letters of credit expire at varying dates through November 2008.

We had guarantees totaling $6.8 million as of June 30, 2007, excluding guarantees related to consolidated indebtedness and operating leases. These guarantees primarily include a debt repayment guaranty of an unconsolidated subsidiary as well as various guarantees of management contracts in our operations overseas. The guarantee obligation related to the debt repayment guaranty of an unconsolidated subsidiary expires in December 2009. The other guarantees will expire at the end of each of the respective management agreements.

Additionally, in connection with the Trammell Crow Company Acquisition, we have assumed numerous completion and budget guarantees relating to development projects. These guarantees are made by us in the normal course of business. Each of these guarantees requires us to complete construction of the relevant project within a specified timeframe and/or within a specified budget, with us potentially being liable for costs to complete in excess of such timeframe or budget. However, we generally have guaranteed maximum price contracts with reputable general contractors with respect to projects for which we provide these guarantees. These contracts are intended to pass the budget risk to such contractors. While there can be no assurance, we do not expect to incur any material losses under these guarantees.

As a result of development activities acquired in the Trammell Crow Company Acquisition, from time to time, we act as a general contractor with respect to construction projects. We do not consider these activities to be a material part of our business. In connection with these activities, we seek to subcontract construction work for certain projects to reputable subcontractors. Should construction defects arise relating to the underlying projects, we could potentially be liable to the client for the costs to repair such defects; we would generally look to the subcontractor that performed the work to remedy the defect and also look to insurance policies that cover this work. While there can be no assurance, we do not expect to incur material losses with respect to construction defects.

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 June 30, 2007, we had committed $48.9 million to fund future co-investments.

12. Stock-Based Compensation

Stock Incentive Plans

2001 Stock Incentive Plan. Our 2001 stock incentive plan was adopted by our Board of Directors and approved by our stockholders on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004 in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares

CB RICHARD ELLIS GROUP, INC.
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12. Stock-Based Compensation (Continued)

remain available for issuance under it. However, as of June 30, 2007, outstanding stock options granted under the 2001 stock incentive plan to acquire 6,078,694 shares of our Class A common stock remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards. Options granted under this plan have an exercise price of $1.92 and vest and are exercisable in 20% annual increments over five years from the date of grant. Options granted under the 2001 stock incentive plan are subject to a maximum term of ten years from the date of grant. The number of shares issued 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. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

Amended and Restated 2004 Stock Incentive Plan. Our 2004 stock incentive plan was adopted by our Board of Directors and approved by our stockholders on April 21, 2004, was amended and restated on April 14, 2005 and was amended again on September 6, 2006 and June 1, 2007. The 2004 stock incentive plan authorizes the grant of stock-based awards to our employees, directors or independent contractors. A total of 20,785,218 shares of our Class A common stock initially were reserved for issuance under the 2004 stock incentive plan. This share reserve is reduced by one share upon grant of an option or stock appreciation right, and is reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Awards that expire, terminate or lapse, will again be available for grant under this plan. Pursuant to the terms of our 2004 stock incentive plan, no employee is eligible to be granted options or stock appreciation rights covering more than 6,235,566 shares during any calendar year. This limitation is subject to a policy adopted by our board of directors which states that no person is eligible to be granted options, stock appreciation rights or restricted stock purchase rights covering more than 2,078,523 shares during any calendar year or to be granted any other form of stock award covering more than 1,039,260 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.

As of June 30, 2007, 5,954,085 shares were subject to options issued under our 2004 stock incentive plan and 7,686,009 shares remained available for future grants under the 2004 stock incentive plan. Options granted under this plan during the six months ended June 30, 2007 have exercise prices in the range of $34.54 to $36.78, of which 17,455 shares vest and are exercisable in equal annual increments over four years from the date of grant and 12,799 shares vest and are exercisable in equal quarterly increments over three years from the date of grant.

CB RICHARD ELLIS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Stock-Based Compensation (Continued)

A summary of the status of our option plans is presented in the tables below:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	13,729,892	$ 7.30
Exercised	(1,505,727)	5.42
Granted	30,254	35.46
Forfeited	(221,640)	6.38
Outstanding at June 30, 2007	12,032,779	$ 7.63
Vested and expected to vest at June 30, 2007(1)	11,741,452	$ 7.63
Exercisable at June 30, 2007	4,749,594	$ 4.20

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumption to total outstanding options.

Options outstanding at June 30, 2007 and their related weighted average exercise price, intrinsic value and life information is presented below:

	Outstanding Options				Exercisable Options		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$1.92	6,078,694	5.5	$ 1.92		3,413,155	$ 1.92	
$6.33 - $7.46	2,416,815	2.4	7.44		888,315	7.40	
$11.10 - $15.43	2,579,672	5.1	15.21		443,336	15.04	
$23.46 - $34.54	944,799	6.2	23.70		4,695	25.85	
$35.40 - $36.78	12,799	6.9	36.72		93	35.40	
	12,032,779	4.9	$ 7.63	$ 347,420,636	4,749,594	$ 4.20	$ 153,432,883

At June 30, 2007, the aggregate intrinsic value and weighted average remaining contractual life for options vested and expected to vest were $339.7 million and 4.9 years, respectively.

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 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 generally vest over three to five-year periods.

In December 2004, the FASB issued SFAS No. 123 Revised, *Share Based Payment,* or SFAS No. 123R. SFAS No. 123R requires the measurement of compensation cost at the grant date, based upon the estimated fair value of the award, and requires amortization of the related expense over the employee s requisite service period. Effective January 1, 2006, we adopted SFAS No. 123R applying the modified-prospective method for remaining unvested options that were granted subsequent to our IPO and the prospective method for remaining unvested options that were granted prior to our IPO.

CB RICHARD ELLIS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Stock-Based Compensation (Continued)

In accordance with SFAS No. 123R, we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility and the expected life of the options.

The total estimated grant date fair value of stock options that vested during the six months ended June 30, 2007 was $1.4 million. The weighted average fair value of options granted by us was $16.43 and $10.72 for the three months ended June 30, 2007 and 2006, respectively, and $15.69 and $10.72 for the six months ended June 30, 2007 and 2006, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Dividend yield	0 %	0 %	0 %	0 %
Risk-free interest rate	4.92 %	4.91 %	4.68 %	4.91 %
Expected volatility	40.00 %	36.20 %	40.00 %	36.20 %
Expected life	5 years	5 years	5 years	5 years

The dividend yield assumption is excluded from the calculation, as it is our present intention to retain all earnings. The expected volatility is based on a combination of our historical stock price and implied volatility. The selection of implied volatility data to estimate expected volatility is based upon the availability of actively traded options on our stock. The risk-free interest rate is based upon the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The expected life of our stock options represents the average between the vesting and contractual term, pursuant to Securities and Exchange Staff Accounting Bulletin No. 107.

Option valuation models require the input of subjective assumptions including the expected stock price volatility and expected life. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, we do not believe that the Black-Scholes model necessarily provides a reliable single measure of the fair value of our employee stock options.

Total compensation expense related to stock options was $2.1 million and $1.8 million for the three months ended June 30, 2007 and 2006, respectively, and $4.2 million and $3.5 million for the six months ended June 30, 2007 and 2006, respectively. In addition, during the three and six months ended June 30, 2007, we incurred $0.2 million and $9.8 million, respectively, of expense resulting from the acceleration of vesting of stock options in connection with the termination of duplicative employees as a result of the Trammell Crow Company Acquisition, which is included in merger-related charges in the accompanying consolidated statement of operations for the three and six months ended June 30, 2007. At June 30, 2007, total unrecognized estimated compensation cost related to non-vested stock options was approximately $19.7 million, which is expected to be recognized over a weighted average period of approximately 2.4 years.

The total intrinsic value of stock options exercised during the six months ended June 30, 2007 and 2006 was $46.8 million and $28.2 million, respectively. We recorded cash received from stock option

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Stock-Based Compensation (Continued)

exercises of $8.2 million and $4.4 million and related tax benefits of $15.1 million and $8.5 million during the six months ended June 30, 2007 and 2006, respectively. Upon option exercise, we issue new shares of stock. Excess tax benefits exist when the tax deduction resulting from the exercise of options exceeds the compensation cost recorded. Prior to the adoption of SFAS No. 123R, we presented all such excess tax benefits as operating cash flows on our consolidated statements of cash flows. SFAS No. 123R requires the cash flows resulting from such excess tax benefits to be classified as financing cash flows. Under SFAS No. 123R, we have classified excess tax benefits of $15.1 million and $8.5 million for the six months ended June 30, 2007 and 2006, respectively, as financing cash inflows.

We have issued non-vested stock awards, including shares and stock units, in our Class A common stock to certain of our employees and members of our Board of Directors. During the six months ended June 30, 2007, we granted non-vested stock awards of 74,415 shares, of which 57,902 shares were restricted stock awards which immediately vested at the date of grant, 7,670 shares vest in equal annual increments over four years from the date of grant and 8,843 shares vest in three years from the date of grant. During the six months ended June 30, 2006, we granted non-vested stock awards of 7,792 shares, which vest in three years from the date of grant. In addition, we granted 290,497 and 441,753 of non-vested stock units to certain of our employees during the six months ended June 30, 2007 and 2006, respectively. These non-vested stock units all vest in 2016. A summary of the status of our non-vested stock awards is presented in the table below:

	Shares/Units	Weighted Average Market Value Per Share
Balance at December 31, 2006	1,881,669	$ 23.97
Granted	364,912	34.59
Vested	(115,109)	24.40
Forfeited	(9,026)	19.83
Balance at June 30, 2007	2,122,446	$ 25.79

Total compensation expense related to non-vested stock awards was $2.7 million and $7.4 million, respectively, for the three and six months ended June 30, 2007. This includes $2.0 million of compensation expense related to the 57,902 shares of restricted stock which immediately vested at the date of grant during the six months ended June 30, 2007. In addition, during the three and six months ended June 30, 2007, we incurred $0.1 million and $1.0 million, respectively, of expense resulting from the acceleration of vesting of non-vested stock awards in connection with the termination of duplicative employees as a result of the Trammell Crow Company Acquisition, which is included in merger-related charges in the accompanying consolidated statement of operations. Total compensation expense related to non-vested stock awards was $0.9 million and $1.4 million, respectively for the three and six months ended June 30, 2006. At June 30, 2007, total unrecognized estimated compensation cost related to non-vested stock awards was approximately $46.9 million, which is expected to be recognized over a weighted average period of approximately 5.2 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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13. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Where appropriate, the computation of diluted earnings per share further assumes the dilutive effect of potential common shares, which include stock options, stock warrants and certain contingently issuable shares. Contingently issuable shares represent non-vested stock awards. 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. The following is a calculation of earnings per share (dollars in thousands, except share data):

	Three Months Ended June 30, 2007			**2006**		
	Income	**Shares**	**Per Share Amount**	**Income**	**Shares**	**Per Share Amount**
Basic earnings per share:						
Net income applicable to common stockholders	$ 141,135	230,543,095	$ 0.61	$ 64,254	225,964,727	$ 0.28
Diluted earnings per share:						
Net income applicable to common stockholders	$ 141,135	230,543,095		$ 64,254	225,964,727	
Dilutive effect of contingently issuable shares		636,270			238,009	
Dilutive effect of stock options		6,296,219			7,453,205	
Net income applicable to common stockholders	$ 141,135	237,475,584	$ 0.59	$ 64,254	233,655,941	$ 0.27

	Six Months Ended June 30, 2007			**2006**		
	Income	**Shares**	**Per Share Amount**	**Income**	**Shares**	**Per Share Amount**
Basic earnings per share:						
Net income applicable to common stockholders	$ 153,112	230,105,706	$ 0.67	$ 101,164	225,763,242	$ 0.45
Diluted earnings per share:						
Net income applicable to common stockholders	$ 153,112	230,105,706		$ 101,164	225,763,242	
Dilutive effect of contingently issuable shares		591,028			198,340	
Dilutive effect of stock options		6,509,610			7,342,724	
Net income applicable to common stockholders	$ 153,112	237,206,344	$ 0.65	$ 101,164	233,304,306	$ 0.43

CB RICHARD ELLIS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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13. Earnings Per Share (Continued)

For the three and six months ended June 30, 2007, options to purchase 35,970 shares of common stock were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. There were no anti-dilutive shares for the three and six months ended June 30, 2006.

14. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign currency translation adjustments, unrealized holding gains on available for sale securities, an adjustment related to the adoption of SFAS No. 158 and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net income	$ 141,135	$ 64,254	$ 153,112	$ 101,164
Other comprehensive income:				
Foreign currency translation gains and other	5,825	5,693	8,055	8,202
Unrealized gains on interest rate swaps, net	8,021		8,286	
Unrealized holding (losses) gains on available for sale securities, net	(83)		937	
Total other comprehensive income	13,763	5,693	17,278	8,202
Comprehensive income	$ 154,898	$ 69,947	$ 170,390	$ 109,366

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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15. Pensions

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

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Service cost	$ 1,920	$ 1,666	$ 3,852	$ 3,371
Interest cost	4,137	3,522	8,209	6,901
Expected return on plan assets	(4,364)	(3,638)	(8,655)	(7,129)
Amortization of prior service benefit	(220)	(119)	(437)	(233)
Amortization of unrecognized net loss	475	378	942	741
Net periodic pension cost	$ 1,948	$ 1,809	$ 3,911	$ 3,651

We contributed $2.0 million and $4.6 million to fund our pension plans during the three and six months ended June 30, 2007. We are currently in the process of amending these plans. As a result, the expected contribution amount for the year ended December 31, 2007 is not currently determinable.

16. Merger-Related Charges

In connection with the Trammell Crow Company Acquisition, we recorded merger-related charges of $2.9 million and $34.7 million for the three and six months ended June 30, 2007. These charges primarily relate to the termination of employees, who have become duplicative as a result of the Trammell Crow Company Acquisition. Our merger-related charges consisted of the following (dollars in thousands):

	2007 Charge	Utilized to Date	To be Utilized at June 30, 2007
Severance	$ 31,325	$ (28,729)	$ 2,596
Costs associated with exiting contracts	1,047	(1,047)	
Lease termination costs	1,022		1,022
Other	1,338	(1,338)	
Total merger-related charges	$ 34,732	$ (31,114)	$ 3,618

17. Sale of Savills plc

In January 2007, we sold Trammell Crow Company s approximately 19% ownership interest in Savills plc and generated a pre-tax loss of $34.9 million during the six months ended June 30, 2007, which was largely driven by stock price depreciation at the date of sale as compared to December 31, 2006 when the investment was marked to market. The loss is included in other loss in the accompanying consolidated statements of operations. We received approximately $311.0 million of pre-tax proceeds from the sale, net of selling expenses.

18. Liabilities Related to the Insignia Acquisition

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we accrued certain liabilities in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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18. Liabilities Related to the Insignia Acquisition (Continued)

Connection with a Purchase Business Combination. These remaining liabilities assumed in connection with the Insignia Acquisition consist of the following and are included in the accompanying consolidated balance sheets (dollars in thousands):

	Liability Balance at December 31, 2006	2007 Utilization	To be Utilized at June 30, 2007
Lease termination costs	$ 9,976	$ (1,843)	$ 8,133
Legal settlements anticipated	2,246	(46)	2,200
	$ 12,222	$ (1,889)	$ 10,333

The remaining liability associated with items previously charged to merger-related costs in connection with the Insignia Acquisition consisted of the following (dollars in thousands):

	Liability Balance at December 31, 2006	2007 Utilization	To be Utilized at June 30, 2007
Lease termination costs	$ 13,997	$ (1,604)	$ 12,393

19. 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 $1.2 billion and $1.0 billion at June 30, 2007 and December 31, 2006, respectively.

20. 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. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents and Restricted Cash: These balances include cash and cash equivalents as well as restricted cash with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

Receivables, less allowance for doubtful accounts: Due to their short-term nature, fair value approximates carrying value.

Warehouse Receivables: Due to their short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of funded mortgage loans and generally reflects the values of the WaMu and JP Morgan warehouse lines of credit for our wholly-owned subsidiary, CBRE Melody (See Note 10).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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20. Fair Value of Financial Instruments (Continued)

Trading Securities: These investments are carried at fair value as of June 30, 2007 and December 31, 2006. The substantial majority of this balance at December 31, 2006 represented an investment in Savills plc acquired as part of the Trammell Crow Company Acquisition, which was sold during the six months ended June 30, 2007.

Short-Term Borrowings: The majority of this balance represents our revolving credit facility and the WaMu and JP Morgan warehouse lines of credit for CBRE Melody. Due to the variable interest rates of these instruments, fair value approximates carrying value (See Note 10).

Senior Secured Term Loan & Other Short-Term and Long-Term Debt: Estimated fair values approximate respective carrying values because the substantial majority of these instruments are based on variable interest rates (See Note 10).

21. Industry Segments

We report our operations through five segments. The segments are as follows: (1) Americas, (2) EMEA, (3) Asia Pacific, (4) Global Investment Management and (5) Development Services.

The Americas segment is our largest segment of operations and provides a comprehensive range of services throughout the U.S. and in the largest regions of Canada, Mexico and other selected parts of Latin America. The primary services offered consist of the following: real estate services, mortgage loan origination and servicing, valuation services, asset services and corporate services.

Our EMEA and Asia Pacific segments provide services similar to the Americas business segment, excluding mortgage loan origination and servicing. The EMEA segment has operations primarily in Europe, while the Asia Pacific segment has operations primarily in Asia, Australia and New Zealand.

Our Global Investment Management business provides investment management services to clients seeking to generate returns and diversification through investments in real estate in the U.S., Europe and Asia.

Our Development Services business consists of real estate development and investment activities primarily in the U.S., which we acquired in the Trammell Crow Company Acquisition on December 20, 2006.

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21. Industry Segments (Continued)

Summarized financial information by segment is as follows (dollars in thousands):

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Revenue				
Americas	$ 934,018	$ 597,169	$ 1,725,903	$ 1,090,506
EMEA	330,813	192,164	556,166	356,888
Asia Pacific	121,760	87,195	215,762	150,013
Global Investment Management	83,838	27,016	169,428	57,409
Development Services	19,934		37,065	
	$ 1,490,363	$ 903,544	$ 2,704,324	$ 1,654,816
Operating income (loss)				
Americas	$ 92,216	$ 84,046	$ 113,835	$ 127,516
EMEA	64,489	32,461	98,125	46,487
Asia Pacific	24,598	12,349	34,534	13,057
Global Investment Management	28,538	(977)	67,205	374
Development Services	(11,225)		(21,955)	
	198,616	127,879	291,744	187,434
Equity income (loss) from unconsolidated subsidiaries				
Americas	5,379	3,279	9,642	6,594
EMEA	237	655	632	654
Asia Pacific	(15)	56	(18)	414
Global Investment Management	12,071	4,438	11,756	9,179
Development Services	8,243		8,152	
	25,915	8,428	30,164	16,841
Minority interest expense (income)				
Americas	214	166	484	243