

CB RICHARD ELLIS GROUP INC
Form 10-Q
August 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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) |
| 100 N. Sepulveda Boulevard, Suite 1050 El Segundo, California (Address of principal executive offices) | 90245 (Zip Code) |
| (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 No .

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 Accelerated filer Non-accelerated filer

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

The number of shares of Class A common stock outstanding at July 31, 2006 was 223,643,140.

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June 30, 2006
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CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

| | June 30, 2006 (Unaudited) | December 31, 2005 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 127,289 | \$ 449,289 |
| Restricted cash | 3,897 | 5,179 |
| Receivables, less allowance for doubtful accounts of \$17,595 and \$15,646 at June 30, 2006 and December 31, 2005, respectively | 473,161 | 483,175 |
| Warehouse receivables | 17,650 | 255,963 |
| Prepaid expenses | 55,449 | 36,402 |
| Deferred tax assets, net | 41,419 | 38,629 |
| Other current assets | 19,501 | 16,327 |
| Total Current Assets | 738,366 | 1,284,964 |
| Property and equipment, net | 156,998 | 137,655 |
| Goodwill | 934,340 | 880,179 |
| Other intangible assets, net of accumulated amortization of \$38,053 and \$30,586 at June 30, 2006 and December 31, 2005, respectively | 107,058 | 109,540 |
| Deferred compensation assets | 157,642 | 144,597 |
| Investments in and advances to unconsolidated subsidiaries | 109,128 | 106,153 |
| Deferred tax assets, net | 116,327 | 94,200 |
| Other assets, net | 77,212 | 58,384 |
| Total Assets | \$ 2,397,071 | \$ 2,815,672 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 206,405 | \$ 254,085 |
| Compensation and employee benefits payable | 204,908 | 189,984 |
| Accrued bonus and profit sharing | 201,400 | 324,973 |
| Income taxes payable | | 63,918 |
| Short-term borrowings: | | |
| Revolving line of credit | 248,000 | |
| Warehouse lines of credit | 17,650 | 255,963 |
| Other | 25,567 | 16,189 |
| Total short-term borrowings | 291,217 | 272,152 |
| Current maturities of long-term debt | 513 | 11,913 |
| Other current liabilities | 21,602 | 20,778 |
| Total Current Liabilities | 926,045 | 1,137,803 |
| Long-Term Debt: | | |
| 11 1/4% senior subordinated notes, net of unamortized discount of \$1,648 at December 31, 2005 | | 163,021 |
| Senior secured term loan | | 253,450 |
| 9 3/4% senior notes | 130,000 | 130,000 |
| Other long-term debt | 2,330 | 2,685 |
| Total Long-Term Debt | 132,330 | 549,156 |
| Deferred compensation liability | 187,891 | 172,871 |
| Pension liability | 44,381 | 41,194 |
| Other liabilities | 157,501 | 114,139 |
| Total Liabilities | 1,448,148 | 2,015,163 |
| Commitments and contingencies | | |
| Minority interest | 28,441 | 6,824 |
| Stockholders' Equity: | | |
| Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 223,372,280 and 221,353,746 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively | 2,234 | 2,214 |
| Additional paid-in capital | 566,063 | 548,652 |
| Notes receivable from sale of stock | (101) | (101) |
| Accumulated earnings | 384,679 | 283,515 |
| Accumulated other comprehensive loss | (32,393) | (40,595) |
| Total Stockholders' Equity | 920,482 | 793,685 |
| Total Liabilities and Stockholders' Equity | \$ 2,397,071 | \$ 2,815,672 |

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
(Unaudited)
(Dollars in thousands, except share data)

| | Three Months Ended June 30, 2006 | 2005 | Six Months Ended June 30, 2006 | 2005 |
|---|---|-------------|---|--------------|
| Revenue | \$ 836,228 | \$ 672,163 | \$ 1,516,319 | \$ 1,210,429 |
| Costs and expenses: | | | | |
| Cost of services | 412,496 | 338,691 | 752,941 | 606,737 |
| Operating, administrative and other | 283,598 | 241,730 | 548,759 | 464,951 |
| Depreciation and amortization | 12,255 | 10,818 | 27,185 | 21,188 |
| Operating income | 127,879 | 80,924 | 187,434 | 117,553 |
| Equity income from unconsolidated subsidiaries | 8,428 | 15,443 | 16,841 | 19,373 |
| Minority interest expense | 1,580 | 664 | 1,809 | 1,353 |
| Interest income | 2,976 | 3,058 | 6,566 | 5,503 |
| Interest expense | 13,352 | 13,374 | 27,287 | 26,972 |
| Loss on extinguishment of debt | 22,255 | 1,832 | 22,255 | 6,762 |
| Income before provision for income taxes | 102,096 | 83,555 | 159,490 | 107,342 |
| Provision for income taxes | 37,842 | 33,134 | 58,326 | 42,349 |
| Net income | \$ 64,254 | \$ 50,421 | \$ 101,164 | \$ 64,993 |
| Basic income per share | \$ 0.28 | \$ 0.23 | \$ 0.45 | \$ 0.29 |
| Weighted average shares outstanding for basic income per share | 225,964,727 | 221,355,696 | 225,763,242 | 220,979,199 |
| Diluted income per share | \$ 0.27 | \$ 0.22 | \$ 0.43 | \$ 0.28 |
| Weighted average shares outstanding for diluted income per share | 233,655,941 | 229,097,697 | 233,304,306 | 228,827,433 |

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

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CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | Six Months Ended June 30, 2006 | | 2005 |
|---|---|------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$ 101,164 | \$ 64,993 | |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 27,185 | 21,188 | |
| Amortization and write-off of deferred financing costs | 13,851 | 3,387 | |
| Amortization and write-off of long-term debt discount | 1,648 | 534 | |
| Deferred compensation deferrals | 14,560 | 11,407 | |
| Gain on sale of servicing rights and other assets | (4,323) | (2,720) | |
| Equity income from unconsolidated subsidiaries | (16,841) | (19,373) | |
| Distribution of earnings from unconsolidated subsidiaries | 14,089 | 8,974 | |
| Minority interest expense | 1,809 | 1,353 | |
| Provision for doubtful accounts | 1,434 | 2,498 | |
| Deferred income taxes | (3,301) | 4,496 | |
| Compensation expense for stock options and non-vested stock awards | 4,842 | 1,526 | |
| Incremental tax benefit from stock options exercised | (8,482) | (8,482) | |
| Tenant concessions received | 5,809 | 988 | |
| Decrease in receivables | 19,183 | 60,656 | |
| Increase in deferred compensation assets | (13,045) | (30,417) | |
| Increase in prepaid expenses and other assets | (41,510) | (7,535) | |
| Decrease in accounts payable and accrued expenses | (51,883) | (28,496) | |
| Decrease in compensation and employee benefits payable and accrued bonus and profit sharing | (110,166) | (82,738) | |
| (Decrease) increase in income taxes payable | (63,944) | 17,064 | |
| Increase (decrease) in other liabilities | 30,368 | (16,182) | |
| Other operating activities, net | 83 | (402) | |
| Net cash (used in) provided by operating activities | (77,470) | 11,201 | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (27,958) | (15,513) | |
| Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired | (49,527) | (3,372) | |
| Investment in property held for sale | | (28,221) | |
| Contributions to investments in unconsolidated subsidiaries, net | (4,895) | (12,189) | |
| Proceeds from sale of servicing rights and other assets | 3,652 | 2,649 | |
| Decrease in restricted cash | 1,321 | 3,382 | |
| Other investing activities, net | (912) | 1,026 | |
| Net cash used in investing activities | (78,319) | (52,238) | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayment of senior secured term loan | (265,250) | (5,900) | |
| Proceeds from revolving credit facility | 278,000 | | |
| Repayment of revolving credit facility | (30,000) | | |
| Repayment of 11 1/4% senior subordinated notes | (164,669) | (38,200) | |
| Repayment of other short-term borrowings, net | (5,139) | (1,515) | |
| Proceeds from debt related to property held for sale | | 22,394 | |
| Proceeds from exercise of stock options | 4,444 | 3,841 | |
| Incremental tax benefits from stock options exercised | 8,482 | | |
| Minority interest contributions (distributions), net | 8,827 | (1,306) | |
| Payment of deferred financing fees | (5,099) | (318) | |
| Other financing activities, net | (425) | 311 | |
| Net cash used in financing activities | (170,829) | (20,693) | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD | (326,618) | (61,730) | |
| Effect of currency exchange rate changes on cash | 4,618 | (2,949) | |
| CASH AND CASH EQUIVALENTS, AT END OF PERIOD | \$ 127,289 | \$ 192,217 | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 35,493 | \$ 28,358 | |
| Income taxes, net of refunds | \$ 125,345 | \$ 18,685 | |

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

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except share data)

| | Shares | Class A common stock | Additional paid-in capital | Notes receivable from sale of stock | Accumulated earnings | loss Minimum pension liability | Foreign currency translation | Accumulated other comprehensive Total |
|--|-------------|----------------------------|----------------------------------|--|-------------------------|---|------------------------------------|--|
| Balance at December 31, 2005 | 221,353,746 | \$ 2,214 | \$ 548,652 | \$ (101) | \$ 283,515 | \$ (20,739) | \$ (19,856) | \$ 793,685 |
| Net income | | | | | 101,164 | | | 101,164 |
| Net cancellation and distribution of deferred compensation stock fund units | 593,187 | 6 | (81) |) | | | | (75) |
| Stock options exercised (including tax benefit) | 1,424,035 | 14 | 12,650 | | | | | 12,664 |
| Compensation expense for stock options and non- vested stock awards | | | 4,762 | | | | | 4,762 |
| Non-cash issuance of common stock | 3,112 | | 80 | | | | | 80 |
| Foreign currency translation gain | | | | | | 8,202 | 8,202 | |
| Cancellation of non-vested stock awards | (1,800) | | | | | | | |
| Balance at June 30, 2006 | 223,372,280 | \$ 2,234 | \$ 566,063 | \$ (101) | \$ 384,679 | \$ (20,739) | \$ (11,654) | \$ 920,482 |

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

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 this Quarterly Report on Form 10-Q 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. We have no substantive operations other than our investment in 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.

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 tenant representation, property/agency leasing, property sales, commercial mortgage origination and servicing, integrated capital markets (equity and debt) solutions, commercial property and corporate facility 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

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

2. Basis of Presentation (Continued)

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, 2006 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2006. 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, 2005.

On May 2, 2006, our board of directors approved a three-for-one stock split of our outstanding Class A common stock effected as a 100% stock dividend, which was distributed on June 1, 2006. The applicable share and per share data for all periods included herein has been restated to give effect to this stock split.

3. 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 remain available for issuance under it. However, as of June 30, 2006, outstanding stock options granted under the 2001 stock incentive plan to acquire 9,568,794 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 and amended and restated on April 14, 2005. 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

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

3. Stock-Based Compensation (Continued)

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, lapse, that are reacquired by us or are redeemed for cash rather than shares 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. As of June 30, 2006, 6,381,095 shares were subject to options issued under our 2004 stock incentive plan and 11,614,304 shares remained available for future grants under the 2004 stock incentive plan. Options granted under this plan during 2004 have exercise prices in the range of \$6.33 to \$7.46 and vest and are exercisable generally in equal annual increments over three or four years from the date of grant. Options granted under this plan during 2005 have exercise prices in the range of \$11.10 to \$15.43 and vest and are also exercisable generally in equal annual increments over three or four years from the date of grant. Options granted under this plan during 2006 have an exercise price of \$25.67 and vest and are also exercisable generally in equal annual increments over three years from the date of grant. All options previously granted under the 2004 stock incentive plan have had a term of five or seven years from the date of grant. In addition, we granted non-vested stock awards of 30,954 shares, 472,368 shares and 449,545 shares during 2004, 2005 and 2006, respectively. These non-vested stock awards vest in equal annual increments over three or four years from the date of the award. 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.

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

| | Shares | Weighted Average Exercise Price | Exercisable Shares | Weighted Average Exercise Price |
|----------------------------------|--------------|--|-----------------------|---------------------------------------|
| Outstanding at December 31, 2005 | 17,391,048 | \$ 5.46 | 4,644,981 | \$ 2.97 |
| Exercised | (1,416,243) | 3.09 | | |
| Granted | 15,584 | 25.67 | | |
| Forfeited | (40,500) | (11.00) | | |
| Outstanding at June 30, 2006 | 15,949,889 | \$ 5.67 | 3,557,334 | \$ 2.99 |

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

3. Stock-Based Compensation (Continued)

Options outstanding at June 30, 2006 and their related weighted average exercise price, intrinsic value and life information is presented below:

| Exercise Prices | Outstanding Options | | | | Exercisable Options | | | |
|-----------------|---------------------|---|---------------------------------|---------------------------|---------------------|---------------------------------|---------------------------|--|
| | 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 | 9,568,794 | 6.3 | \$ 1.92 | | 2,886,393 | \$ 1.92 | | |
| \$6.33 \$7.46 | 3,213,912 | 3.3 | 7.44 | | 646,269 | 7.39 | | |
| \$11.10 \$15.43 | 3,151,599 | 6.1 | 15.14 | | 24,672 | 11.83 | | |
| \$25.67 | 15,584 | 6.9 | 25.67 | | | | | |
| | 15,949,889 | 5.7 | \$ 5.67 | \$ 306,716,365 | 3,557,334 | \$ 2.99 | \$ 77,941,188 | |

Non-Vested Stock Awards. Under our 2004 stock incentive plan, we have issued non-vested stock awards in our Class A common stock to certain of our employees and members of our Board of Directors. A summary of the status of our non-vested stock awards is presented in the table below:

| | Shares | Weighted Average Market Value Per Share |
|------------------------------|----------|---|
| Balance at December 31, 2005 | 503,322 | \$ 14.79 |
| Granted | 449,545 | 22.68 |
| Vested | | |
| Forfeited | (1,800) | (15.43) |
| Balance at June 30, 2006 | 951,067 | \$ 18.52 |

Accounting for Stock-Based Compensation

Prior to 2003, we accounted for our employee stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Financial Accounting Standards Board (FASB) interpretations. Accordingly, compensation cost for employee stock options was measured as the excess, if any, of the estimated market price of our Class A common stock at the date of grant over the amount an employee was required to pay to acquire the stock.

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*. Awards under our stock-based compensation plans generally vest over three to five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net income for the three and six months ended June 30, 2006 and 2005 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.

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

3. Stock-Based Compensation (Continued)

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.

The modified-prospective method provides for certain changes to the method for valuing share-based payment compensation, however prior periods are not required to be revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards as well as options that were granted subsequent to our IPO that were outstanding on the effective date and are subsequently modified or cancelled. As we have been accounting for our options under the fair value based method under SFAS No. 123 since the fourth quarter of 2003, the adoption of the modified-prospective method of SFAS No. 123R has not had a material impact on our financial position or results of operations.

We are applying the prospective method for the remaining unvested options that were granted prior to our IPO. Under prospective method application, the fair value and other provisions of the statement are to be applied only to awards modified, repurchased or cancelled after the required effective date. In addition, we are required to account for any portion of awards outstanding as of January 1, 2006 using the accounting principles originally applied to those awards. Accordingly, for stock awards issued in 2001 and 2002 which remained outstanding as of January 1, 2006, we are continuing to account for them under the measurement provisions of APB Opinion No. 25 and related FASB interpretations. In addition, our 2003 and pre-IPO 2004 grants will continue to be accounted for under the minimum value provisions of SFAS No. 123.

In accordance with SFAS No. 123R, we have continued to 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. SFAS No. 123R also requires companies to estimate forfeitures. As we previously estimated forfeitures under SFAS No. 123, in this regard our adoption of SFAS No. 123R has had no impact on our results of operations for the six months ended June 30, 2006.

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

3. Stock-Based Compensation (Continued)

The following table illustrates the effect on net income and income per share if the fair value based method had been applied to all outstanding and unvested awards in each period (dollars in thousands, except share data):

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | June 30, 2006 | 2005 | June 30, 2006 | 2005 |
| Net income as reported | \$ 64,254 | \$ 50,421 | \$ 101,164 | \$ 64,993 |
| Add: Stock-based employee compensation expense included in reported net income, net of the related tax effect | 1,616 | 448 | 3,071 | 924 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of the related tax effect | (1,740) | (1,090) | (3,333) | (1,681) |
| Pro forma net income | \$ 64,130 | \$ 49,779 | \$ 100,902 | \$ 64,236 |
| Basic income per share: | | | | |
| As reported | \$ 0.28 | \$ 0.23 | \$ 0.45 | \$ 0.29 |
| Pro forma | \$ 0.28 | \$ 0.22 | \$ 0.45 | \$ 0.29 |
| Diluted income per share: | | | | |
| As reported | \$ 0.27 | \$ 0.22 | \$ 0.43 | \$ 0.28 |
| Pro forma | \$ 0.27 | \$ 0.22 | \$ 0.43 | \$ 0.28 |

The weighted average fair value of options granted by us was \$10.72 and \$4.09 for the three months ended June 30, 2006 and 2005, respectively, and \$10.72 and \$4.26 for the six months ended June 30, 2006 and 2005, 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 | | Six Months Ended | |
|-------------------------|---------------------------|-------------|--------------------------|-------------|
| | June 30, 2006 | 2005 | June 30, 2006 | 2005 |
| Dividend yield | 0 % | 0 % | 0 % | 0 % |
| Risk-free interest rate | 4.91 % | 3.65 % | 4.91 % | 3.65 % |
| Expected volatility | 36.20 % | 40.00 % | 36.20 % | 40.00 % |
| Expected life | 5 years | 4 years | 5 years | 4 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 the 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 the 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 Staff Accounting Bulletin No. 107.

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

3. Stock-Based Compensation (Continued)

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.

The total estimated grant date fair value of stock options that vested during the six months ended June 30, 2006 was \$3.5 million, which approximates the share-based compensation expense before taxes included in other operating expenses due to the monthly vesting for the majority of our stock options. At June 30, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was approximately \$19.4 million, which is expected to be recognized over a weighted average period of approximately 3.0 years. The total intrinsic value of stock options exercised during the six months ended June 30, 2006 was \$28.2 million. We recorded cash received from stock option exercises of \$4.4 million and related tax benefits of \$8.5 million during the six months ended June 30, 2006. Upon option exercise, we issue new shares of stock.

A tax benefit is created 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 tax benefits as operating cash flows on our consolidated statements of cash flows. SFAS No. 123R requires the cash flows resulting from such tax benefits to be classified as financing cash flows. Under SFAS No. 123R, we have classified excess tax benefits of \$8.5 million for the six months ended June 30, 2006 as financing cash inflows.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. We have elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

4. 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 required to be 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.

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

4. Fair Value of Financial Instruments (Continued)

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 outstanding for our wholly-owned subsidiary, CBRE Melody & Company (CBRE Melody), which was formerly known as L. J. Melody & Company (See Note 8).

Short-Term Borrowings: The majority of this balance represents our new revolving credit facility and the WaMu and JP Morgan warehouse lines of credit outstanding for CBRE Melody. Due to the variable interest rates of these instruments, fair value approximates carrying value (See Note 8).

11 1/4% Senior Subordinated Notes: Based on dealers quotes, the estimated fair value of our 11 1/4% senior subordinated notes was \$177.8 million at December 31, 2005. The actual carrying value totaled \$163.0 million at December 31, 2005 (See Note 8).

9 3/4% Senior Notes: Based on dealers quotes, the estimated fair value of our 9 3/4% senior notes was \$139.1 million and \$141.7 million at June 30, 2006 and December 31, 2005, respectively. Their actual carrying value totaled \$130.0 million at both June 30, 2006 and December 31, 2005 (See Note 8).

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 8).

5. Restricted Cash

Included in the accompanying consolidated balance sheets as of June 30, 2006 and December 31, 2005, is restricted cash of \$3.9 million and \$5.2 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the U.K.

6. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for us and each of our segments (See Note 16 for a description of our segments) for the six months ended June 30, 2006 (dollars in thousands):

| | Americas | EMEA | Asia Pacific | Global Investment Management | Total |
|---|------------|------------|--------------|------------------------------|------------|
| Balance at January 1, 2006 | \$ 571,517 | \$ 260,988 | \$ 14,017 | \$ 33,657 | \$ 880,179 |
| Purchase accounting adjustments related to acquisitions | 13,664 | 25,023 | 11,215 | 4,259 | 54,161 |
| Balance at June 30, 2006 | \$ 585,181 | \$ 286,011 | \$ 25,232 | \$ 37,916 | \$ 934,340 |

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

6. Goodwill and Other Intangible Assets (Continued)

Other intangible assets totaled \$107.1 million and \$109.5 million, net of accumulated amortization of \$38.1 million and \$30.6 million, as of June 30, 2006 and December 31, 2005, respectively, and are comprised of the following (dollars in thousands):

| | As of June 30, 2006 | | As of December 31, 2005 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Unamortizable intangible assets | | | | |
| Trademarks | \$ 63,700 | | \$ 63,700 | |
| Trade name | 19,826 | | 19,826 | |
| | \$ 83,526 | | \$ 83,526 | |
| Amortizable intangible assets | | | | |
| Management contracts | 28,837 | (19,846) | 27,769 | (17,404) |
| Loan servicing rights | 21,925 | (8,404) | 21,571 | (7,657) |
| Other | 10,823 | (9,803) | 7,260 | (5,525) |
| | \$ 61,585 | \$ (38,053) | \$ 56,600 | \$ (30,586) |
| Total intangible assets | \$ 145,111 | \$ (38,053) | \$ 140,126 | \$ (30,586) |

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. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

Management contracts are primarily comprised of property management contracts in the 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.

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, net revenue backlog acquired from in-fill acquisitions in the latter part of 2005 is also included. All of these other intangible assets are being amortized over estimated useful lives of up to twenty years.

Amortization expense related to intangible assets was \$1.9 million for both the three months ended June 30, 2006 and 2005 and \$6.9 million and \$3.7 million for the six months ended June 30, 2006 and 2005, respectively. The estimated annual amortization expense for each of the years ending December 31, 2006 through December 31, 2010 approximates \$9.4 million, \$5.0 million, \$3.4 million, \$3.2 million and \$3.1 million, respectively.

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

7. 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, | |
|-------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net revenue | \$ 155,990 | \$ 89,806 | \$ 258,374 | \$ 197,320 |
| Operating income | \$ 31,172 | \$ 19,104 | \$ 56,556 | \$ 40,488 |
| Net (loss) income | \$ (91,384) | \$ 73,243 | \$ 105,029 | \$ 115,783 |

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 June 2005, CBRE Realty Finance, Inc. (CBRE Realty Finance), a real estate investment trust, was formed and is managed by CBRE Melody. The principal business activity of CBRE Realty Finance is to originate, acquire, invest in, finance and manage a diversified portfolio of commercial real estate-related loans and securities. On June 9, 2005, we received 300,000 shares of restricted stock and an option to purchase 500,000 shares of common stock from CBRE Realty Finance that vest in three equal annual installments. Effective June 9, 2006, 100,000 shares of the restricted stock vested and are now owned as common stock. As of June 30, 2006, CBRE Realty Finance had total assets of \$979.2 million and total equity of \$290.3 million. CBRE Realty Finance is a variable interest entity as defined in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN No. 46R). In accordance with FIN No. 46R, CBRE Realty Finance is not consolidated in our consolidated financial statements because we are not its primary beneficiary. Our maximum exposure to loss is limited to our equity investment in CBRE Realty Finance, which was approximately \$18.1 million as of June 30, 2006.

8. Debt

We had short-term borrowings of \$291.2 million and \$272.2 million with related average interest rates of 6.2% and 5.2% as of June 30, 2006 and December 31, 2005, 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 June 26, 2006, we entered into a new \$600.0 million multi-currency senior secured revolving credit facility (the Credit Agreement) with a syndicate of banks led by CS, as administrative and collateral agent, which fully replaced our prior credit agreement. In connection with the replacement of our prior credit facility, we wrote off \$8.2 million of unamortized deferred financing fees during the three months ended June 30, 2006.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

8. 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 and (2) the ability to borrow an additional \$200.0 million, subject to the satisfaction of customary conditions. The \$600.0 million 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.

Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either 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 June 30, 2006, we had \$248.0 million of revolving credit facility principal outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets. As of June 30, 2006, letters of credit totaling \$1.5 million were outstanding, which letters of credit primarily relate to our subsidiaries outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

Our previous credit agreement included the following: (1) a term loan facility of \$295.0 million, which required quarterly principal payments of \$2.95 million beginning December 31, 2004 through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$150.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on March 31, 2009. Our previous credit agreement also permitted us to make additional borrowings under a term loan facility of up to \$25.0 million, subject to the satisfaction of customary conditions.

Borrowings under the term loan facility bore interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate was the higher of (1) CS's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt balances in the accompanying consolidated balance sheets was \$265.3 million as of December 31, 2005.

Borrowings under the previous revolving credit facility bore interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the previous credit agreement). There was no revolving credit facility principal outstanding as of December 31, 2005.

The prior credit facilities were, and the Credit Agreement continues to be, jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. The prior credit facilities were secured by a pledge of substantially all of our domestic assets, while 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.

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued \$200.0 million in aggregate principal amount of 9 $\frac{3}{4}$ % senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all

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

8. Debt (Continued)

obligations with respect to the 9 $\frac{3}{4}$ % senior notes in connection with the Insignia Acquisition. The 9 $\frac{3}{4}$ % 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 $\frac{3}{4}$ % senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9 $\frac{3}{4}$ % per year and is payable semi-annually in arrears on May 15 and November 15. The 9 $\frac{3}{4}$ % senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9 $\frac{3}{4}$ % senior notes at 109 $\frac{3}{4}$ % 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 9 $\frac{3}{4}$ % senior notes, which also required the payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption. In the event of a change of control (as defined in the indenture governing our 9 $\frac{3}{4}$ % senior notes), we are obligated to make an offer to purchase the 9 $\frac{3}{4}$ % senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9 $\frac{3}{4}$ % senior notes included in the accompanying consolidated balance sheets was \$130.0 million as of both June 30, 2006 and December 31, 2005.

In June 2001, in connection with the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11 $\frac{1}{4}$ % senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CBRE assumed all obligations with respect to the 11 $\frac{1}{4}$ % senior subordinated notes in connection with the 2001 Merger. The 11 $\frac{1}{4}$ % senior subordinated notes were unsecured senior subordinated obligations of CBRE and were jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11 $\frac{1}{4}$ % senior subordinated notes required semi-annual payments of interest in arrears on June 15 and December 15 and were 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. During the year ended December 31, 2004, we repurchased \$21.6 million in aggregate principal amount of our 11 $\frac{1}{4}$ % senior subordinated notes in the open market. We paid \$3.1 million of premiums and wrote off \$0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. During the year ended December 31, 2005, we repurchased an additional \$42.7 million in aggregate principal amount of our 11 $\frac{1}{4}$ % senior subordinated notes in the open market. We paid an aggregate of \$5.9 million of premiums and wrote off \$1.5 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. As permitted by the indenture governing these notes, on June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11 $\frac{1}{4}$ % senior subordinated notes at 105.625% of par. In connection with this early redemption, we paid a \$9.3 million premium and wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount. The amount of the 11 $\frac{1}{4}$ % senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$163.0 million as of December 31, 2005.

Our Credit Agreement and the indenture governing our 9 $\frac{3}{4}$ % senior notes 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, create or permit liens on assets, engage in transactions with affiliates, enter into

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

8. Debt (Continued)

sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

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. The credit agreement with WaMu was previously with Residential Funding Corporation (RFC). On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provided for a warehouse line of credit of up to \$250.0 million, bore interest at one-month LIBOR plus 1.0% and expired on September 1, 2005. This agreement provided for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. During the latter half of 2005 and continuing into 2006, we executed several amendments extending the warehouse line of credit with WaMu, the last of which extended the agreement until July 1, 2006.

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 expires on November 14, 2006.

During the six months ended June 30, 2006, we had a maximum of \$399.8 million of warehouse lines of credit principal outstanding. As of June 30, 2006 and December 31, 2005, we had \$17.7 million and \$256.0 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 \$17.7 million and \$256.0 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, 2006 and December 31, 2005, respectively, and which are also included 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. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement. On May 31, 2005, with the exception of one note holder, we entered into an amendment to eliminate a letter of credit requirement and adjust the interest rate to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement plus twelve basis points. This interest rate is now equal to the interest rate in effect with respect to amounts outstanding under our Credit Agreement plus twelve basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$11.2 million and \$11.6 million as of June 30, 2006 and December 31, 2005, respectively.

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

8. Debt (Continued)

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, 2006 and December 31, 2005, \$3.1 million and \$4.6 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

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 are now consolidating IKOMA's financial statements, which include debt. IKOMA utilizes short-term borrowings to assist in funding its working capital requirements. As of June 30, 2006, IKOMA had \$7.0 million of debt outstanding, which is 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, 2006 and December 31, 2005, there were no amounts outstanding under this facility.

9. 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 that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

We had an outstanding letter of credit totaling \$0.4 million as of June 30, 2006, excluding letters of credit related to our subsidiaries' outstanding indebtedness and operating leases. The \$0.4 million outstanding letter of credit is a Fannie Mae letter of credit executed by CBRE Melody and expires on December 10, 2006. However, we are required to renew this letter of credit until our obligation to cover our portion of certain potential credit losses is satisfied.

We had guarantees totaling \$3.0 million as of June 30, 2006, which include various guarantees of management contracts in our operations overseas as well as a guarantee to Fannie Mae for \$0.4 million. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007. The other guarantees will expire at the end of each of the respective management agreements.

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, 2006, we had committed \$35.8 million to fund future co-investments.

10. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign

CB RICHARD ELLIS GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**10. Comprehensive Income (Continued)**

currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, 2006 | 2005 | June 30, 2006 | 2005 |
| Net income | \$ 64,254 | \$ 50,421 | \$ 101,164 | \$ 64,993 |
| Foreign currency translation gain (loss) | 5,693 | (918) | 8,202 | (2,864) |
| Comprehensive income | \$ 69,947 | \$ 49,503 | \$ 109,366 | \$ 62,129 |

11. 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, | | | 2005 | | | | |
|---|-----------------------------|-------------|---------|------------------|-------------|---------|--------|------------------|
| | 2006 | Income | Shares | Per Share Amount | 2005 | Income | Shares | Per Share Amount |
| Basic earnings per share: | | | | | | | | |
| Net income applicable to common stockholders | \$ 64,254 | 225,964,727 | \$ 0.28 | \$ 50,421 | 221,355,696 | \$ 0.23 | | |
| Diluted earnings per share: | | | | | | | | |
| Net income applicable to common stockholders | \$ 64,254 | 225,964,727 | | \$ 50,421 | 221,355,696 | | | |
| Dilutive effect of contingently issuable shares | | 238,009 | | | | | | |
| Dilutive effect of stock options | | 7,453,205 | | | 7,742,001 | | | |
| Net income applicable to common stockholders | \$ 64,254 | 233,655,941 | \$ 0.27 | \$ 50,421 | 229,097,697 | \$ 0.22 | | |

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

11. Earnings Per Share (Continued)

| | Six Months Ended June 30, 2006 | | | 2005 | | | Per Share Amount |
|---|-----------------------------------|-------------|------------------------|-----------|-------------|--|------------------------|
| | Income | Shares | Per Share Amount | Income | Shares | | |
| Basic earnings per share: | | | | | | | |
| Net income applicable to common stockholders | \$ 101,164 | 225,763,242 | \$ 0.45 | \$ 64,993 | 220,979,199 | | \$ 0.29 |
| Diluted earnings per share: | | | | | | | |
| Net income applicable to common stockholders | \$ 101,164 | 225,763,242 | | \$ 64,993 | 220,979,199 | | |
| Dilutive effect of contingently issuable shares | | 198,340 | | | | | |
| Dilutive effect of stock options | | 7,342,724 | | | | | 7,848,234 |
| Net income applicable to common stockholders | \$ 101,164 | 233,304,306 | \$ 0.43 | \$ 64,993 | 228,827,433 | | \$ 0.28 |

12. 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 \$852.0 million and \$759.8 million at June 30, 2006 and December 31, 2005, respectively.

13. Pensions

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

| | Three Months Ended June 30, 2006 | | Six Months Ended June 30, 2006 | |
|---------------------------------------|-------------------------------------|----------|--------------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| Service cost | \$ 1,666 | \$ 1,380 | \$ 3,371 | \$ 2,807 |
| Interest cost | 3,522 | 3,157 | 6,901 | 6,373 |
| Expected return on plan assets | (3,638) | (3,514) | (7,129) | (7,090) |
| Amortization of prior service benefit | (119) | (120) | (233) | (243) |
| Amortization of unrecognized net loss | 378 | 197 | 741 | 397 |
| Net periodic pension cost | \$ 1,809 | \$ 1,100 | \$ 3,651 | \$ 2,244 |

We contributed \$1.8 million and \$3.9 million to fund our pension plans during the three and six months ended June 30, 2006, respectively. We expect to contribute a total of \$7.5 million to fund our pension plans for the year ending December 31, 2006.

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

14. Liabilities Related to the Insignia Acquisition

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we accrued certain liabilities in accordance with Emerging Issues Task Force (EITF) Issue No. 95-3, *Recognition of Liabilities in 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, 2005 | 2006 Utilization | To be Utilized |
|---|---|-------------------------|-----------------------|
| Lease termination costs | \$ 19,289 | \$ (2,895) | \$ 16,394 |
| Legal settlements anticipated | 7,670 | (694) | 6,976 |
| Severance | 671 | (5) | 666 |
| Costs associated with exiting contracts | 69 | (69) | |
| | \$ 27,699 | \$ (3,663) | \$ 24,036 |

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, 2005 | 2006 Utilization | To be Utilized |
|-------------------------|---|-------------------------|-----------------------|
| Lease termination costs | \$ 18,302 | \$ (2,515) | \$ 15,787 |

15. Guarantor and Nonguarantor Financial Statements

The 9¾% senior notes and the Credit Agreement are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries (see Note 8 for additional information).

The following condensed consolidating financial information includes:

- (1) Condensed consolidating balance sheets as of June 30, 2006 and December 31, 2005; condensed consolidating statements of operations for the three and six months ended June 30, 2006 and 2005; and condensed consolidating statements of cash flows for the six months ended June 30, 2006 and 2005, of (a) CB Richard Ellis Group as the parent, (b) CBRE as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CB Richard Ellis Group on a consolidated basis; and
- (2) Elimination entries necessary to consolidate CB Richard Ellis Group as the parent, with CBRE and its guarantor and nonguarantor subsidiaries.

Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and inter-company balances and transactions.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2006

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|--|---------------|--------------|-------------------------------|----------------------------------|--------------------|---------------------------|
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 8 | \$ 5,790 | \$ 49,264 | \$ 72,227 | \$ | \$ 127,289 |
| Restricted cash | | | 3,342 | 555 | | 3,897 |
| Receivables, less allowance for doubtful accounts | 7 | | 185,833 17,650 | 287,321 | | 473,161 17,650 |
| Warehouse receivables(a) | | | | | | |
| Prepaid expenses and other current assets | 43,725 | 1,591 | 39,664 | 31,389 | | 116,369 |
| Total Current Assets | 43,740 | 7,381 | 295,753 | 391,492 | | 738,366 |
| Property and equipment, net | | | 85,636 | 71,362 | | 156,998 |
| Goodwill | | | 569,378 | 364,962 | | 934,340 |
| Other intangible assets, net | | | 83,303 | 23,755 | | 107,058 |
| Deferred compensation assets | | 157,642 | | | | 157,642 |
| Investments in and advances to unconsolidated subsidiaries | | 43 | 61,240 | 47,845 | | 109,128 |
| Investments in consolidated subsidiaries | 751,610 | 474,460 | 403,310 | | (1,629,380) | |
| Inter-company loan receivable | 30,282 | 671,844 | | | (702,126) | |
| Deferred tax assets, net | 116,327 | | | | | 116,327 |
| Other assets, net | | 9,055 | 41,872 | 26,285 | | 77,212 |
| Total Assets | \$ 941,959 | \$ 1,320,425 | \$ 1,540,492 | \$ 925,701 | \$ (2,331,506) | \$ 2,397,071 |
| Current Liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ | \$ 2,924 | \$ 99,454 | \$ 104,027 | \$ | \$ 206,405 |
| Compensation and employee benefits payable | | | 125,495 | 79,413 | | 204,908 |
| Accrued bonus and profit sharing | | | 78,496 | 122,904 | | 201,400 |
| Short-term borrowings: | | | | | | |
| Revolving line of credit | | 248,000 | | | | 248,000 |
| Warehouse lines of credit(a) | | | 17,650 | | | 17,650 |
| Other | | | 14,391 | 11,176 | | 25,567 |
| Total short-term borrowings | | 248,000 | 32,041 | 11,176 | | 291,217 |
| Current maturities of long-term debt | | | | 513 | | 513 |
| Other current liabilities | 21,477 | | 125 | | | 21,602 |
| Total Current Liabilities | 21,477 | 250,924 | 335,611 | 318,033 | | 926,045 |
| Long-Term Debt: | | | | | | |
| 93 1/4% senior notes | | 130,000 | | | | 130,000 |
| Inter-company loan payable | | | 619,407 | 82,719 | (702,126) | |
| Other long-term debt | | | | 2,330 | | 2,330 |
| Total Long-Term Debt | | 130,000 | 619,407 | 85,049 | (702,126) | 132,330 |
| Deferred compensation liability | | 187,891 | | | | 187,891 |
| Pension liability | | | | 44,381 | | 44,381 |
| Other liabilities | | | 111,014 | 46,487 | | 157,501 |
| Total Liabilities | 21,477 | 568,815 | 1,066,032 | 493,950 | (702,126) | 1,448,148 |
| Commitments and contingencies | | | | | | |
| Minority interest | | | | 28,441 | | 28,441 |
| Stockholders' Equity | 920,482 | 751,610 | 474,460 | 403,310 | (1,629,380) | 920,482 |
| Total Liabilities and Stockholders' Equity | \$ 941,959 | \$ 1,320,425 | \$ 1,540,492 | \$ 925,701 | \$ (2,331,506) | \$ 2,397,071 |

(a) Although CBRE Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 3/4% senior notes and our Credit Agreement, all warehouse receivables funded under the WaMu and JP Morgan lines of credit are pledged to WaMu and JP Morgan, and accordingly, are not included as collateral for these notes or our other outstanding debt.

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2005

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|--|---------------|--------------|-------------------------------|----------------------------------|--------------------|---------------------------|
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 6 | \$ 106,449 | \$ 305,956 | \$ 36,878 | \$ | \$ 449,289 |
| Restricted cash | | | 4,698 | 481 | | 5,179 |
| Receivables, less allowance for doubtful accounts | 3 | | 178,724 | 304,448 | | 483,175 |
| Warehouse receivables(a) | | | 255,963 | | | 255,963 |
| Prepaid expenses and other current assets | 38,629 | 80 | 22,438 | 30,211 | | 91,358 |
| Total Current Assets | 38,638 | 106,529 | 767,779 | 372,018 | | 1,284,964 |
| Property and equipment, net | | | 80,290 | 57,365 | | 137,655 |
| Goodwill | | | 556,399 | 323,780 | | 880,179 |
| Other intangible assets, net | | | 85,093 | 24,447 | | 109,540 |
| Deferred compensation assets | | 144,597 | | | | 144,597 |
| Investments in and advances to unconsolidated subsidiaries | | 6,362 | 82,007 | 17,784 | | 106,153 |
| Investments in consolidated subsidiaries | 651,017 | 541,718 | 321,177 | | (1,513,912) | |
| Inter-company loan receivable | 93,605 | 571,708 | | | (665,313) | |
| Deferred tax assets, net | 94,200 | | | | | 94,200 |
| Other assets, net | 250 | 17,839 | 28,901 | 11,394 | | 58,384 |
| Total Assets | \$ 877,710 | \$ 1,388,753 | \$ 1,921,646 | \$ 806,788 | \$ (2,179,225) | \$ 2,815,672 |
| Current Liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ | \$ 6,594 | \$ 103,686 | \$ 143,805 | \$ | \$ 254,085 |
| Compensation and employee benefits payable | | | 119,521 | 70,463 | | 189,984 |
| Accrued bonus and profit sharing | | | 155,664 | 169,309 | | 324,973 |
| Income taxes payable | 63,918 | | | | | 63,918 |
| Short-term borrowings: | | | | | | |
| Warehouse lines of credit(a) | | | 255,963 | | | 255,963 |
| Other | | | 16,189 | | | 16,189 |
| Total short-term borrowings | | | 272,152 | | | 272,152 |
| Current maturities of long-term debt | | 11,800 | | 113 | | 11,913 |
| Other current liabilities | 20,107 | | 671 | | | 20,778 |
| Total Current Liabilities | 84,025 | 18,394 | 651,694 | 383,690 | | 1,137,803 |
| Long-Term Debt: | | | | | | |
| 11 1/4% senior subordinated notes, net of unamortized discount | | 163,021 | | | | 163,021 |
| Senior secured term loan | | 253,450 | | | | 253,450 |
| 9 3/4% senior notes | | 130,000 | | | | 130,000 |
| Inter-company loan payable | | | 647,228 | 18,085 | (665,313) | |
| Other long-term debt | | | | 2,685 | | 2,685 |
| Total Long-Term Debt | | 546,471 | 647,228 | 20,770 | (665,313) | 549,156 |
| Deferred compensation liability | | 172,871 | | | | 172,871 |
| Pension liability | | | | 41,194 | | 41,194 |
| Other liabilities | | | 81,006 | 33,133 | | 114,139 |
| Total Liabilities | 84,025 | 737,736 | 1,379,928 | 478,787 | (665,313) | 2,015,163 |
| Commitments and contingencies | | | | | | |
| Minority interest | | | | 6,824 | | 6,824 |
| Stockholders' Equity | 793,685 | 651,017 | 541,718 | 321,177 | (1,513,912) | 793,685 |
| Total Liabilities and Stockholders' Equity | \$ 877,710 | \$ 1,388,753 | \$ 1,921,646 | \$ 806,788 | \$ (2,179,225) | \$ 2,815,672 |

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(a) Although CBRE Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9¾% senior notes and our Credit Agreement, all warehouse receivables funded under the WaMu and JP Morgan lines of credit are pledged to WaMu and JP Morgan, and accordingly, are not included as collateral for these notes or our other outstanding debt.

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2006
(Dollars in thousands)**

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|--|------------------|------------------|-------------------------------|----------------------------------|----------------------|---------------------------|
| Revenue | \$ | \$ | \$ 534,413 | \$ 301,815 | \$ | \$ 836,228 |
| Costs and expenses: | | | | | | |
| Cost of services | | | 280,563 | 131,933 | | 412,496 |
| Operating, administrative and other | 2,430 | (713) | 167,037 | 114,844 | | 283,598 |
| Depreciation and amortization | | | 7,360 | 4,895 | | 12,255 |
| Operating (loss) income | (2,430) | 713 | 79,453 | 50,143 | | 127,879 |
| Equity income from unconsolidated subsidiaries | | | 4,788 | 3,640 | | 8,428 |
| Minority interest expense | | | | 1,580 | | 1,580 |
| Interest income | 2 | 10,556 | 2,459 | 471 | (10,512) | 2,976 |
| Interest expense | | 12,706 | 9,315 | 1,843 | (10,512) | 13,352 |
| Loss on extinguishment of debt | | 22,255 | | | | 22,255 |
| Equity income from consolidated subsidiaries | 65,754 | 79,338 | 33,088 | | (178,180) | |
| Income before (benefit) provision for income taxes | 63,326 | 55,646 | 110,473 | 50,831 | (178,180) | 102,096 |
| (Benefit) provision for income taxes | (928) | (10,108) | 31,135 | 17,743 | | 37,842 |
| Net income | \$ 64,254 | \$ 65,754 | \$ 79,338 | \$ 33,088 | \$ (178,180) | \$ 64,254 |

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2005

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|--|---------------|-------------|-------------------------------|----------------------------------|--------------------|---------------------------|
| Revenue | \$ | \$ | \$ 470,498 | \$ 201,665 | \$ | \$ 672,163 |
| Costs and expenses: | | | | | | |
| Cost of services | | | 251,063 | 87,628 | | 338,691 |
| Operating, administrative and other | 1,115 | 2,299 | 148,643 | 89,673 | | 241,730 |
| Depreciation and amortization | | | 7,055 | 3,763 | | 10,818 |
| Operating (loss) income | (1,115) | (2,299) | 63,737 | 20,601 | | 80,924 |
| Equity income from unconsolidated subsidiaries | | 4,054 | 10,997 | 392 | | 15,443 |
| Minority interest expense | | | | 664 | | 664 |
| Interest income | 32 | 10,829 | 1,201 | 1,734 | (10,738) | 3,058 |
| Interest expense | | 12,638 | 9,454 | 2,020 | (10,738) | 13,374 |
| Loss on extinguishment of debt | | 1,832 | | | | 1,832 |
| Equity income from consolidated subsidiaries | 51,094 | 51,476 | 10,490 | | (113,060) | |
| Income before (benefit) provision for income taxes | 50,011 | 49,590 | 76,971 | 20,043 | (113,060) | 83,555 |
| (Benefit) provision for income taxes | (410) | (1,504) | 25,495 | 9,553 | | 33,134 |
| Net income | \$ 50,421 | \$ 51,094 | \$ 51,476 | \$ 10,490 | \$ (113,060) | \$ 50,421 |

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|--|---------------|-------------|-------------------------------|----------------------------------|--------------------|---------------------------|
| Revenue | \$ | \$ | \$ 973,385 | \$ 542,934 | \$ | \$ 1,516,319 |
| Costs and expenses: | | | | | | |
| Cost of services | | | 508,712 | 244,229 | | 752,941 |
| Operating, administrative and other | 4,840 | (1,381) | 332,615 | 212,685 | | 548,759 |
| Depreciation and amortization | | | 14,658 | 12,527 | | 27,185 |
| Operating (loss) income | (4,840) | 1,381 | 117,400 | 73,493 | | 187,434 |
| Equity income from unconsolidated subsidiaries | | 324 | 12,380 | 4,137 | | 16,841 |
| Minority interest expense | | | | 1,809 | | 1,809 |
| Interest income | 5 | 21,794 | 5,384 | 1,078 | (21,695) | 6,566 |
| Interest expense | | 26,094 | 19,838 | 3,050 | (21,695) | 27,287 |
| Loss on extinguishment of debt | | 22,255 | | | | 22,255 |
| Equity income from consolidated subsidiaries | 104,152 | 119,018 | 47,584 | | (270,754) | |
| Income before (benefit) provision for income taxes | 99,317 | 94,168 | 162,910 | 73,849 | (270,754) | 159,490 |
| (Benefit) provision for income taxes | (1,847) | (9,984) | 43,892 | 26,265 | | 58,326 |
| Net income | \$ 101,164 | \$ 104,152 | \$ 119,018 | \$ 47,584 | \$ (270,754) | \$ 101,164 |

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2005

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Elimination | Consolidated Total |
|---|---------------|-------------|-------------------------------|----------------------------------|--------------------|---------------------------|
| Revenue | \$ (117) | \$ 840,177 | | \$ 370,369 | \$ | \$ 1,210,429 |
| Costs and expenses: | | | | | | |
| Cost of services | | | 441,180 | 165,557 | | 606,737 |
| Operating, administrative and other | 2,160 | 4,304 | 289,123 | 169,364 | | 464,951 |
| Depreciation and amortization | | | 13,621 | 7,567 | | 21,188 |
| Operating (loss) income | (2,160) | (4,421) | 96,253 | 27,881 | | 117,553 |
| Equity income (loss) from unconsolidated subsidiaries | | 4,265 | 15,760 | (652) | | 19,373 |
| Minority interest expense | | | | 1,353 | | 1,353 |
| Interest income | 53 | 21,679 | 2,626 | 2,616 | (21,471) | 5,503 |
| Interest expense | 112 | 25,629 | 19,175 | 3,527 | (21,471) | 26,972 |
| Loss on extinguishment of debt | | 6,762 | | | | 6,762 |
| Equity income from consolidated subsidiaries | 66,371 | 76,205 | 12,883 | | (155,459) | |
| Income before (benefit) provision for income taxes | 64,152 | 65,337 | 108,347 | 24,965 | (155,459) | 107,342 |
| (Benefit) provision for income taxes | (841) | (1,034) | 32,142 | 12,082 | | 42,349 |
| Net income | \$ 64,993 | \$ 66,371 | \$ 76,205 | \$ 12,883 | \$ (155,459) | \$ 64,993 |

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(Dollars in thousands)**

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Consolidated Total |
|---|---------------|-------------|-------------------------------|----------------------------------|---------------------------|
| CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES: | \$ (71,199) | \$ 3,726 | \$ (1,576) | \$ (8,421) | \$ (77,470) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | | (17,454) | (10,504) | (27,958) |
| Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired | | | (22,058) | (27,469) | (49,527) |
| Capital distributions from (contributions to) investments in unconsolidated subsidiaries, net | 82 | | 14,085 | (19,062) | (4,895) |
| Proceeds from the sale of servicing rights and other assets | | 3,280 | | 372 | 3,652 |
| Decrease (increase) in restricted cash | | | 1,356 | (35) | 1,321 |
| Other investing activities, net | 32 | | 45 | (989) | (912) |
| Net cash provided by (used in) investing activities | 114 | | (20,746) | (57,687) | (78,319) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Repayment of senior secured term loan | | (265,250) | | | (265,250) |
| Proceeds from revolving credit facility | | 278,000 | | | 278,000 |
| Repayment of revolving credit facility | | (30,000) | | | (30,000) |
| Repayment of 11 1/4% senior subordinated notes | | (164,669) | | | (164,669) |
| Repayment of other short-term borrowings, net | | | (2,121) | (3,018) | (5,139) |
| Proceeds from exercise of stock options | 4,444 | | | | 4,444 |
| Incremental tax benefits from stock options exercised | | 8,482 | | | 8,482 |
| Minority interest contributions, net | | | | 8,827 | 8,827 |
| Payment of deferred financing fees | | (5,099) | | | (5,099) |
| Decrease (increase) in inter-company receivables, net | 58,275 | 82,519 | (232,249) | 91,455 | |
| Other financing activities, net | | | | (425) | (425) |
| Net cash provided by (used in) financing activities | 71,201 | (104,499) | (234,370) | 96,839 | (170,829) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2 | (100,659) | (256,692) | 30,731 | (326,618) |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD | 6 | 106,449 | 305,956 | 36,878 | 449,289 |
| Effect of currency exchange rate changes on cash | | | | 4,618 | 4,618 |
| CASH AND CASH EQUIVALENTS, AT END OF PERIOD | \$ 8 | \$ 5,790 | \$ 49,264 | \$ 72,227 | \$ 127,289 |
| SUPPLEMENTAL DATA: | | | | | |
| Cash paid during the period for: | | | | | |
| Interest | \$ | \$ 4,154 | \$ 475 | \$ 30,864 | \$ 35,493 |
| Income taxes, net of refunds | \$ 125,345 | \$ | \$ | \$ | \$ 125,345 |

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

15. Guarantor and Nonguarantor Financial Statements (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005

(Dollars in thousands)

| | Parent | CBRE | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Consolidated Total |
|---|---------------|--------------|-------------------------------|----------------------------------|---------------------------|
| CASH FLOWS PROVIDED BY (USED IN) | | | | | |
| OPERATING ACTIVITIES: | \$ 15,804 | \$ (27,337) | \$ 22,196 | \$ 538 | \$ 11,201 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | | (11,464) | (4,049) | (15,513) |
| Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired | | | (14) | (3,358) | (3,372) |
| Investment in property held for sale | | | | (28,221) | (28,221) |
| Distributions from (contributions to) unconsolidated subsidiaries, net | 2,721 | | (13,434) | (1,476) | (12,189) |
| Proceeds from sale of servicing rights and other assets | | | 2,567 | 82 | 2,649 |
| Decrease in restricted cash | | | 3,320 | 62 | 3,382 |
| Other investing activities, net | 32 | | 694 | 300 | 1,026 |
| Net cash provided by (used in) investing activities | 2,753 | | (18,331) | (36,660) | (52,238) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Proceeds from debt related to property held for sale | | | | 22,394 | 22,394 |
| Repayment of senior secured term loan | (5,900) | | | | (5,900) |
| (Repayment of) proceeds from other short-term borrowings, net | | | (3,403) | 1,888 | (1,515) |
| Repayment of 11 1/4% senior subordinated notes | (38,200) | | | | (38,200) |
| Proceeds from exercise of stock options | 3,841 | | | | 3,841 |
| Minority interest distributions, net | | | | (1,306) | (1,306) |
| Payment of deferred financing fees | (318) | | | | (318) |
| (Increase) decrease in inter-company receivables, net | (18,778) | 74,154 | (59,359) | 3,983 | |
| Other financing activities, net | 339 | | | (28) | 311 |
| Net cash (used in) provided by financing activities | (14,598) | 29,736 | (62,762) | 26,931 | (20,693) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | |
| | 1,206 | 5,152 | (58,897) | (9,191) | (61,730) |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD | | | | | |
| | 3,496 | 2,806 | 216,463 | 34,131 | 256,896 |
| Effect of currency exchange rate changes on cash | | | | (2,949) | (2,949) |
| CASH AND CASH EQUIVALENTS, AT END OF PERIOD | | | | | |
| | \$ 4,702 | \$ 7,958 | \$ 157,566 | \$ 21,991 | \$ 192,217 |
| SUPPLEMENTAL DATA: | | | | | |
| Cash paid during the period for: | | | | | |
| Interest | \$ | \$ 27,545 | \$ 602 | \$ 211 | \$ 28,358 |
| Income taxes, net of refunds | \$ 18,685 | \$ | \$ | \$ | \$ 18,685 |

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

16. Industry Segments

We report our operations through four segments. The segments are as follows: (1) Americas, (2) Europe, Middle East and Africa (EMEA), (3) Asia Pacific and (4) Global Investment Management.

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.

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

16. Industry Segments (Continued)

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

| | Three Months Ended June 30, 2006 | 2005 | Six Months Ended June 30, 2006 | 2005 |
|--|--|-------------------|--------------------------------------|---------------------|
| Revenue | | | | |
| Americas | \$ 554,266 | \$ 489,878 | \$ 1,008,042 | \$ 870,992 |
| EMEA | 170,285 | 123,139 | 305,516 | 225,249 |
| Asia Pacific | 84,661 | 43,284 | 145,352 | 77,159 |
| Global Investment Management | 27,016 | 15,862 | 57,409 | 37,029 |
| | \$ 836,228 | \$ 672,163 | \$ 1,516,319 | \$ 1,210,429 |
| Operating income (loss) | | | | |
| Americas | \$ 84,046 | \$ 68,978 | \$ 127,516 | \$ 102,588 |
| EMEA | 32,461 | 10,722 | 46,487 | 10,739 |
| Asia Pacific | 12,349 | 6,575 | 13,057 | 8,030 |
| Global Investment Management | (977) | (5,351) | 374 | (3,804) |
| | 127,879 | 80,924 | 187,434 | 117,553 |
| Equity income (loss) from unconsolidated subsidiaries | | | | |
| Americas | 3,279 | 3,728 | 6,594 | 6,717 |
| EMEA | 655 | (1) | 654 | (1) |
| Asia Pacific | 56 | 447 | 414 | 665 |
| Global Investment Management | 4,438 | 11,269 | 9,179 | 11,992 |
| | 8,428 | 15,443 | 16,841 | 19,373 |
| Minority interest expense (income) | | | | |
| Americas | 166 | 305 | 243 | 393 |
| EMEA | (5) | 121 | 262 | 304 |
| Asia Pacific | 1,318 | 5 | 1,215 | 135 |
| Global Investment Management | 101 | 233 | 89 | 521 |
| | 1,580 | 664 | 1,809 | 1,353 |
| Interest income | 2,976 | 3,058 | 6,566 | 5,503 |
| Interest expense | 13,352 | 13,374 | 27,287 | 26,972 |
| Loss on extinguishment of debt | 22,255 | 1,832 | 22,255 | 6,762 |
| Income before provision for income taxes | \$ 102,096 | \$ 83,555 | \$ 159,490 | \$ 107,342 |

17. New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS No. 155. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require

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

17. New Accounting Pronouncements (Continued)

bifurcation. It clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. It also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain embedded derivatives requiring bifurcation. The statement will be effective for all financial instruments acquired or issued during fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS No. 155 to have a material effect on our consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, or SFAS No. 156. SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and liabilities. The statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. It also requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It provides an entity with the choice of either amortizing servicing assets and liabilities in proportion to and over the period of estimated net servicing income or net servicing loss or to measure servicing assets and liabilities at fair value and report changes in fair value in current period earnings. The statement will be effective as of the beginning of the fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 156 to have a material effect on our consolidated financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting for derecognition, interest, penalties, accounting in interim periods, disclosure and classification of matters related to uncertainty in income taxes, and transitional requirements upon adoption of FIN 48. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of the adoption of FIN 48 on our consolidated financial position and results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q for CB Richard Ellis Group, Inc. for the three months ended June 30, 2006, represents an update to the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2005. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K as well as the unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are the world's largest commercial real estate services firm, based on 2005 revenue, with leading full-service operations in major metropolitan areas throughout the world. 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. As of December 31, 2005, excluding affiliates and partner offices, we operated in more than 220 offices worldwide with approximately 14,500 employees providing commercial real estate services under the CB Richard Ellis brand name. Our business is focused on several service competencies, including tenant representation, property/agency leasing, property sales, commercial mortgage origination and servicing, integrated capital markets (equity and debt) solutions, commercial property and corporate facility 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. In both 2005 and 2006, we were the only commercial real estate services company included on the *Fortune 1000* list of the largest publicly-held companies.

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

Macroeconomic Conditions

Economic trends and government policies directly affect our operations as well as global and regional commercial real estate markets generally. These include: overall economic activity and employment growth, interest rate levels, the availability of credit to finance transactions and the impact of tax and regulatory policies. Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can negatively affect the performance of many of our business lines. Weak economic conditions could result in a general decrease in transaction activity and 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 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 brokerage business. If our real estate and mortgage brokerage 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.

For example, beginning in 2003 and continuing into 2006, economic conditions in the United States improved from the economic downturn in 2001 and 2002, which positively impacted the commercial real estate market generally. This caused an improvement in our Americas segment's revenue, particularly in transaction revenue and we expect this trend to continue in the near term. However, in the event of a slowdown in the U.S. economy, our revenue growth could be negatively impacted.

Adverse changes in economic conditions would also affect our compensation expense, which is structured to decrease in line with any decrease in revenues. Compensation is our largest expense and the sales and leasing professionals in our largest line of business, advisory services, generally are paid on a commission and bonus basis that correlates with our revenue performance. As a result, the negative effect on our operating margins during difficult market conditions is partially mitigated. In addition, in circumstances when economic conditions are particularly severe, our management can look to improve operational performance by reducing senior management bonuses, curtailing capital expenditures and other cutting of discretionary operating expenses. 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 Acquisitions

Our management historically has made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. For example, we enhanced our mortgage banking services through our 1996 acquisition of L.J. Melody & Company (now known as CBRE Melody) and we significantly increased the scale of our investment management business through our 1995 acquisition of Westmark Realty Advisors (now known as CB Richard Ellis Investors) and our 1997 acquisition of Koll Real Estate Services. Our largest acquisition to date was our 2003 acquisition of Insignia Financial Group, Inc. (Insignia), which not only significantly increased the scale of our real estate advisory 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.

Strategic in-fill acquisitions are an integral component of our growth plans. In 2005, we completed seven acquisitions for an aggregate purchase price of approximately \$100 million, including our acquisition of CB Richard Ellis Gunne in Ireland and Dalgleish & Company in the United Kingdom, both within our Europe, Middle East, and Africa (EMEA) business segment. In early January 2006, our Asia Pacific business segment was augmented by the acquisition of an additional stake in our Japanese affiliate, IKOMA CB Richard Ellis KK, or IKOMA, increasing our equity interest to 51%. In June 2006, we acquired our Wisconsin affiliate, The Polacheck Company, enhancing our brand and market position in the U.S. midwest. These four acquisitions are a good example of our efforts to broaden our geographic coverage. Our acquirees were generally either quality regional firms or niche specialty firms that complement our existing platform or affiliates in which we already held an equity interest.

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures and the charges and costs of integrating the acquired business and its financial and accounting systems into our own. For example, through December 31, 2004, we incurred \$200.9 million of transaction-related expenditures in connection with our acquisition of Insignia in 2003 (the Insignia Acquisition) and \$87.6 million of transaction-related expenditures in connection with our acquisition of CB Richard Ellis Services in 2001. Transaction-related expenditures included severance costs, lease termination costs, transaction costs, deferred financing costs and merger-related costs, among others. We incurred our final transaction expenditures with respect to the Insignia Acquisition in the third quarter of 2004. In addition, through June 30, 2006, we have incurred \$36.7 million of expenses in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own. We expect to incur total integration expenses of approximately \$8.5 million during 2006, which include residual Insignia-related integration costs as well as similar costs related to our strategic in-fill acquisitions in 2005 and 2006.

International Operations

We have made significant acquisitions of non-U.S. companies and we may acquire additional foreign companies in the future. As we increase our foreign operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our management team generally 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 and to hedge risks associated with the translation of foreign currencies into U.S. dollars. 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 related costs and evaluates the appropriate amount of resources to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

Leverage

We have debt service obligations due to the use of leverage to finance our growth. Although our management believes that the incurrence of long-term indebtedness has been important in the development of our business, including facilitating the Insignia Acquisition, 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, in June 2006, we entered into a new \$600.0 million revolving credit facility, which fully replaced our former credit agreement on more favorable terms. Additionally, on June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11¼% senior subordinated notes. Our management expects to continue to look for opportunities to reduce our debt in the future.

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

Critical Accounting Policies

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 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. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include goodwill and other intangible assets, revenue recognition, income taxes and our consolidation policy can be found in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes to these policies as of this Quarterly Report on Form 10-Q for the three months ended June 30, 2006.

Basis of Presentation***Segment Reporting***

We report our operations through four segments. The segments are as follows: (1) Americas, (2) EMEA, (3) Asia Pacific and (4) Global Investment Management. The Americas consists of operations located in the United States, Canada, Mexico and Latin America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. The Global Investment Management business consists of investment management operations in the United States, Europe and Asia.

Results of Operations

The following table sets forth items derived from the consolidated statements of operations for the three and six months ended June 30, 2006 and 2005 presented in dollars and as a percentage of revenue (dollars in thousands):

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|---------|------------|---------|---------------------------|---------|--------------|---------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue | \$ 836,228 | 100.0 % | \$ 672,163 | 100.0 % | \$ 1,516,319 | 100.0 % | \$ 1,210,429 | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Cost of services | 412,496 | 49.3 | 338,691 | 50.4 | 752,941 | 49.6 | 606,737 | 50.1 |
| Operating, administrative and other | 283,598 | 33.9 | 241,730 | 36.0 | 548,759 | 36.2 | 464,951 | 38.4 |
| Depreciation and amortization | 12,255 | 1.5 | 10,818 | 1.6 | 27,185 | 1.8 | 21,188 | 1.8 |
| Operating income | 127,879 | 15.3 | 80,924 | 12.0 | 187,434 | 12.4 | 117,553 | 9.7 |
| Equity income from unconsolidated subsidiaries | 8,428 | 1.0 | 15,443 | 2.3 | 16,841 | 1.1 | 19,373 | 1.6 |
| Minority interest expense | 1,580 | 0.2 | 664 | 0.1 | 1,809 | 0.1 | 1,353 | 0.1 |
| Interest income | 2,976 | 0.4 | 3,058 | 0.5 | 6,566 | 0.4 | 5,503 | 0.5 |
| Interest expense | 13,352 | 1.6 | 13,374 | 2.0 | 27,287 | 1.8 | 26,972 | 2.2 |
| Loss on extinguishment of debt | 22,255 | 2.7 | 1,832 | 0.3 | 22,255 | 1.5 | 6,762 | 0.6 |
| Income before provision for income taxes | 102,096 | 12.2 | 83,555 | 12.4 | 159,490 | 10.5 | 107,342 | 8.9 |
| Provision for income taxes | 37,842 | 4.5 | 33,134 | 4.9 | 58,326 | 3.8 | 42,349 | 3.5 |
| Net income | \$ 64,254 | 7.7 % | \$ 50,421 | 7.5 % | \$ 101,164 | 6.7 % | \$ 64,993 | 5.4 % |
| EBITDA | \$ 146,982 | 17.6 % | \$ 106,521 | 15.8 % | \$ 229,651 | 15.1 % | \$ 156,761 | 13.0 % |

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes 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, readers should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA also differ from the amounts

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

EBITDA is calculated as follows (dollars in thousands):

| | Three Months Ended June 30, | 2006 | 2005 | Six Months Ended June 30, | 2006 | 2005 |
|--------------------------------|------------------------------------|-------------------|-------------------|----------------------------------|-------------|-------------|
| Net income | \$ 64,254 | \$ 50,421 | \$ 101,164 | \$ 64,993 | | |
| Add: | | | | | | |
| Depreciation and amortization | 12,255 | 10,818 | 27,185 | 21,188 | | |
| Interest expense | 13,352 | 13,374 | 27,287 | 26,972 | | |
| Loss on extinguishment of debt | 22,255 | 1,832 | 22,255 | 6,762 | | |
| Provision for income taxes | 37,842 | 33,134 | 58,326 | 42,349 | | |
| Less: | | | | | | |
| Interest income | 2,976 | 3,058 | 6,566 | 5,503 | | |
| EBITDA | \$ 146,982 | \$ 106,521 | \$ 229,651 | \$ 156,761 | | |

Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005

We reported consolidated net income of \$64.3 million for the three months ended June 30, 2006 on revenue of \$836.2 million as compared to consolidated net income of \$50.4 million on revenue of \$672.2 million for the three months ended June 30, 2005.

Our revenue on a consolidated basis increased by \$164.1 million, or 24.4%, as compared to the three months ended June 30, 2005. Approximately two-thirds of the increase was due to organic growth, while the remainder was attributable to in-fill acquisitions completed during 2005 and earlier in 2006. The organic revenue growth was primarily driven by continued higher worldwide transaction revenue as well as increased appraisal/valuation, mortgage brokerage and property and facilities management fees. Additionally, higher fees generated in our Global Investment Management business, particularly in the United States and France, contributed to the increase. Foreign currency translation had a \$3.2 million negative impact on total revenue during the three months ended June 30, 2006.

Our cost of services on a consolidated basis increased by \$73.8 million, or 21.8%, during the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Also contributing to the increase was additional headcount, which primarily resulted from in-fill acquisitions. Foreign currency translation had a \$1.9 million positive impact on cost of services during the three months ended June 30, 2006. Cost of services as a percentage of revenue decreased slightly from 50.4% for the three months ended June 30, 2005 to 49.3% for the three months ended June 30, 2006, primarily attributable to our mix of revenue, with a higher composition of revenue earned from geographic regions with lower commission rates.

Our operating, administrative and other expenses on a consolidated basis were \$283.6 million, an increase of \$41.9 million, or 17.3%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses and carried interest incentive compensation expense, as well as increased marketing costs, all of which resulted from our improved operating performance as well as from the in-fill acquisitions previously mentioned. Foreign currency translation had a \$1.0 million positive impact on total operating expenses during the three months ended June 30, 2006. Operating expenses as a percentage of revenue

decreased from 36.0% for the three months ended June 30, 2005 to 33.9% for the three months ended June 30, 2006, reflecting the operating leverage inherent in our business structure.

Our depreciation and amortization expense on a consolidated basis increased by \$1.4 million, or 13.3%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. This increase was primarily due to higher depreciation expense resulting from increased capital expenditures as well as fixed assets acquired in recent in-fill acquisitions.

Our equity income from unconsolidated subsidiaries on a consolidated basis decreased by \$7.0 million for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. This was primarily due to higher net dispositions within selected funds in our Global Investment Management segment in the prior year.

Our consolidated interest expense was flat between periods totaling \$13.4 million for each of the three months ended June 30, 2006 and 2005. Higher interest expense resulting from an increase in interest rates was offset by interest savings realized as a result of debt repayments made throughout 2005 and the first half of 2006. The replacement of our credit agreement on more favorable terms combined with the redemption of the remaining outstanding balance of our 11 1/4% senior subordinated notes in June 2006 will result in annual interest savings of approximately \$25.0 million, with one-half of that amount to be realized in 2006. Our management expects to continue to look for opportunities to reduce our debt in the future.

Our loss on extinguishment of debt on a consolidated basis was \$22.3 million and \$1.8 million for the three months ended June 30, 2006 and 2005, respectively. These losses incurred were related to the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the repurchase of our 11 1/4% senior subordinated notes in 2005 and the second quarter of 2006. Additionally, during the three months ended June 30, 2006, we wrote off \$8.2 million of unamortized deferred financing fees associated with our prior credit facility, which was replaced during this period. We expect to incur additional charges of this type in connection with the continuation of our de-leveraging efforts in the future.

Our provision for income taxes on a consolidated basis was \$37.8 million for the three months ended June 30, 2006 as compared to \$33.1 million for the three months ended June 30, 2005. Our effective tax rate declined from 39.7% for the three months ended June 30, 2005 to 37.1% for the three months ended June 30, 2006. The increase in the provision for income taxes is attributable to the significant increase in pre-tax income over 2005. The decrease in the effective tax rate is primarily a result of the change in our mix of domestic and foreign earnings.

Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005

We reported consolidated net income of \$101.2 million for the six months ended June 30, 2006 on revenue of \$1.5 billion as compared to consolidated net income of \$65.0 million on revenue of \$1.2 billion for the six months ended June 30, 2005.

Our revenue on a consolidated basis increased by \$305.9 million, or 25.3%, as compared to the six months ended June 30, 2005. Approximately two-thirds of the increase was due to organic growth, while the remainder was attributable to in-fill acquisitions completed during 2005 and earlier in 2006. The organic revenue growth was primarily driven by continued higher worldwide transaction revenue as well as increased appraisal/valuation and property and facilities management fees. Additionally, higher fees generated in our Global Investment Management business, particularly in the United States, France and the United Kingdom, contributed to the increase. Foreign currency translation had a \$19.9 million negative impact on total revenue during the six months ended June 30, 2006.

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Our cost of services on a consolidated basis increased by \$146.2 million, or 24.1%, during the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. As previously mentioned, our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Also contributing to the increase was additional headcount, which primarily resulted from in-fill acquisitions. Foreign currency translation had a \$9.5 million positive impact on cost of services during the six months ended June 30, 2006. Cost of services as a percentage of revenue was relatively consistent between periods at 49.6% for the six months ended June 30, 2006 versus 50.1% for the six months ended June 30, 2005.

Our operating, administrative and other expenses on a consolidated basis were \$548.8 million, an increase of \$83.8 million, or 18.0%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses and carried interest incentive compensation expense, as well as increased marketing costs, all of which resulted from our improved operating performance as well as from the in-fill acquisitions previously mentioned. Foreign currency translation had a \$6.9 million positive impact on total operating expenses during the six months ended June 30, 2006. Operating expenses as a percentage of revenue decreased from 38.4% for the six months ended June 30, 2005 to 36.2% for the six months ended June 30, 2006, reflecting the operating leverage inherent in our business structure.

Our depreciation and amortization expense on a consolidated basis increased by \$6.0 million, or 28.3%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. This increase was driven by higher amortization expense related to intangibles acquired in recent in-fill acquisitions, primarily in our EMEA business segment. Also contributing to the increase was higher depreciation expense, which resulted from increased capital expenditures as well as fixed assets acquired in recent in-fill acquisitions.

Our equity income from unconsolidated subsidiaries on a consolidated basis decreased by \$2.5 million for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. This was primarily due to higher net dispositions within selected funds in our Global Investment Management segment in the prior year.

Our consolidated interest expense was relatively consistent between periods totaling \$27.3 million for the six months ended June 30, 2006, an increase of \$0.3 million, or 1.2%, as compared to the six months ended June 30, 2005. Higher interest expense resulting from an increase in interest rates was predominately offset by interest savings realized as a result of debt repayments made throughout 2005 and the first half of 2006.

Our loss on extinguishment of debt on a consolidated basis was \$22.3 million and \$6.8 million for the six months ended June 30, 2006 and 2005, respectively. These losses incurred were primarily related to the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the repurchase of our 11 1/4% senior subordinated notes during the six months ended June 30, 2006 and 2005. In addition, during the six months ended June 30, 2006, we wrote off \$8.2 million of unamortized deferred financing fees associated with our prior credit facility, which was replaced during the current year.

Our provision for income taxes on a consolidated basis was \$58.3 million for the six months ended June 30, 2006 as compared to \$42.3 million for the six months ended June 30, 2005. Our effective tax rate declined from 39.5% for the six months ended June 30, 2005 to 36.6% for the six months ended June 30, 2006. The increase in the provision for income taxes is attributable to the significant increase in pre-tax income over 2005. The decrease in the effective tax rate is primarily a result of the change in our mix of domestic and foreign earnings.

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Segment Operations

The following table summarizes our revenue, costs and expenses and operating income by our Americas, EMEA, Asia Pacific and Global Investment Management operating segments for the three and six months ended June 30, 2006 and 2005 (dollars in thousands):

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|-------------------------------------|-----------------------------|---------|-------------|----------|---------------------------|---------|-------------|----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Americas | | | | | | | | |
| Revenue | \$ 554,266 | 100.0 % | \$ 489,878 | 100.0 % | \$ 1,008,042 | 100.0 % | \$ 870,992 | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Cost of services | 294,668 | 53.2 | 263,295 | 53.7 | 535,835 | 53.2 | 463,252 | 53.2 |
| Operating, administrative and other | 167,517 | 30.2 | 150,150 | 30.7 | 328,810 | 32.6 | 290,769 | 33.4 |
| Depreciation and amortization | 8,035 | 1.4 | 7,455 | 1.5 | 15,881 | 1.6 | 14,383 | 1.6 |
| Operating income | \$ 84,046 | 15.2 % | \$ 68,978 | 14.1 % | \$ 127,516 | 12.6 % | \$ 102,588 | 11.8 % |
| EBITDA | \$ 95,194 | 17.2 % | \$ 79,857 | 16.3 % | \$ 149,748 | 14.9 % | \$ 123,295 | 14.2 % |
| EMEA | | | | | | | | |
| Revenue | \$ 170,285 | 100.0 % | \$ 123,139 | 100.0 % | \$ 305,516 | 100.0 % | \$ 225,249 | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Cost of services | 75,504 | 44.3 | 54,930 | 44.6 | 138,900 | 45.5 | 104,705 | 46.5 |
| Operating, administrative and other | 59,661 | 35.0 | 55,097 | 44.7 | 111,812 | 36.6 | 104,991 | 46.6 |
| Depreciation and amortization | 2,659 | 1.6 | 2,390 | 2.0 | 8,317 | 2.7 | 4,814 | 2.1 |
| Operating income | \$ 32,461 | 19.1 % | \$ 10,722 | 8.7 % | \$ 46,487 | 15.2 % | \$ 10,739 | 4.8 % |
| EBITDA | \$ 35,780 | 21.0 % | \$ 12,989 | 10.5 % | \$ 55,196 | 18.1 % | \$ 15,248 | 6.8 % |
| Asia Pacific | | | | | | | | |
| Revenue | \$ 84,661 | 100.0 % | \$ 43,284 | 100.0 % | \$ 145,352 | 100.0 % | \$ 77,159 | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Cost of services | 42,324 | 50.0 | 20,466 | 47.3 | 78,206 | 53.8 | 38,780 | 50.3 |
| Operating, administrative and other | 28,931 | 34.2 | 15,694 | 36.3 | 52,103 | 35.8 | 29,201 | 37.8 |
| Depreciation and amortization | 1,057 | 1.2 | 549 | 1.2 | 1,986 | 1.4 | 1,148 | 1.5 |
| Operating income | \$ 12,349 | 14.6 % | \$ 6,575 | 15.2 % | \$ 13,057 | 9.0 % | \$ 8,030 | 10.4 % |
| EBITDA | \$ 12,144 | 14.3 % | \$ 7,566 | 17.5 % | \$ 14,242 | 9.8 % | \$ 9,708 | 12.6 % |
| Global Investment Management | | | | | | | | |
| Revenue | \$ 27,016 | 100.0 % | \$ 15,862 | 100.0 % | \$ 57,409 | 100.0 % | \$ 37,029 | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Operating, administrative and other | 27,489 | 101.7 | 20,789 | 131.0 | 56,034 | 97.6 | 39,990 | 108.0 |
| Depreciation and amortization | 504 | 1.9 | 424 | 2.7 | 1,001 | 1.7 | 843 | 2.3 |
| Operating (loss) income | \$ (977) | (3.6)% | \$ (5,351) | (33.7)% | \$ 374 | 0.7 % | \$ (3,804) | (10.3)% |
| EBITDA | \$ 3,864 | 14.3 % | \$ 6,109 | 38.5 % | \$ 10,465 | 18.2 % | \$ 8,510 | 23.0 % |

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes 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 GAAP, and when analyzing our operating performance, readers should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments.

Net interest expense and loss on extinguishment of debt have been expensed in the segment incurred. Provision for income taxes has been allocated among our segments by using applicable U.S. and foreign effective tax rates. EBITDA for our segments is calculated as follows (dollars in thousands):

| | Three Months Ended June 30, 2006 | 2005 | Six Months Ended June 30, 2006 | 2005 |
|--|---|-------------|---|-------------|
| <u>Americas</u> | | | | |
| Net income | \$ 37,241 | \$ 36,898 | \$ 62,182 | \$ 51,347 |
| Add: | | | | |
| Depreciation and amortization | 8,035 | 7,455 | 15,881 | 14,383 |
| Interest expense | 11,029 | 10,940 | 23,466 | 22,672 |
| Loss on extinguishment of debt | 22,255 | 1,832 | 22,255 | 6,762 |
| Provision for income taxes | 19,041 | 24,162 | 31,567 | 31,226 |
| Less: | | | | |
| Interest income | 2,407 | 1,430 | 5,603 | 3,095 |
| EBITDA | \$ 95,194 | \$ 79,857 | \$ 149,748 | \$ 123,295 |
| <u>EMEA</u> | | | | |
| Net income | \$ 21,665 | \$ 5,904 | \$ 30,517 | \$ 4,916 |
| Add: | | | | |
| Depreciation and amortization | 2,659 | 2,390 | 8,317 | 4,814 |
| Interest expense | 642 | 676 | 859 | 1,228 |
| Provision for income taxes | 11,162 | 5,545 | 16,209 | 6,523 |
| Less: | | | | |
| Interest income | 348 | 1,526 | 706 | 2,233 |
| EBITDA | \$ 35,780 | \$ 12,989 | \$ 55,196 | \$ 15,248 |
| <u>Asia Pacific</u> | | | | |
| Net income | \$ 6,465 | \$ 4,770 | \$ 5,477 | \$ 5,238 |
| Add: | | | | |
| Depreciation and amortization | 1,057 | 549 | 1,986 | 1,148 |
| Interest expense | 1,000 | 757 | 1,711 | 1,443 |
| Provision for income taxes | 3,674 | 1,540 | 5,159 | 1,977 |
| Less: | | | | |
| Interest income | 52 | 50 | 91 | 98 |
| EBITDA | \$ 12,144 | \$ 7,566 | \$ 14,242 | \$ 9,708 |
| <u>Global Investment Management</u> | | | | |
| Net (loss) income | \$ (1,117) | \$ 2,849 | \$ 2,988 | \$ 3,492 |
| Add: | | | | |
| Depreciation and amortization | 504 | 424 | 1,001 | 843 |
| Interest expense | 681 | 1,001 | 1,251 | 1,629 |
| Provision for income taxes | 3,965 | 1,887 | 5,391 | 2,623 |
| Less: | | | | |
| Interest income | 169 | 52 | 166 | 77 |
| EBITDA | \$ 3,864 | \$ 6,109 | \$ 10,465 | \$ 8,510 |

Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005

Americas

Revenue increased by \$64.4 million, or 13.1%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. This largely organic revenue increase was primarily driven by a continued improved leasing trend and strong investment sales activity as well as higher mortgage brokerage, appraisal/valuation and property and facilities management fees. Foreign currency translation had a \$2.8 million positive impact on total revenue during the three months ended June 30, 2006.

Cost of services increased by \$31.4 million, or 11.9%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005, primarily due to higher commission expense as a result of the overall increase in revenue. Foreign currency translation had an \$1.1 million negative impact on cost of services during the three months ended June 30, 2006. Cost of services as a percentage of revenue was relatively consistent between periods at 53.2% for the three months ended June 30, 2006 versus 53.7% for the three months ended June 30, 2005.

Operating, administrative and other expenses increased \$17.4 million, or 11.6%, mainly driven by higher payroll-related costs, which primarily resulted from supporting our growing revenues. Foreign currency translation had a \$1.5 million negative impact on total operating expenses during the three months ended June 30, 2006.

EMEA

Revenue increased by \$47.1 million, or 38.3%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. Organic revenue growth accounted for slightly more than half of this increase, with the remainder resulting from in-fill acquisitions completed in 2005 and earlier in 2006. The organic revenue increase was primarily driven by higher transaction revenue, particularly in the United Kingdom, Germany and France as well as increased appraisal/valuation revenue, primarily in the United Kingdom. The overall increase related to in-fill acquisitions was primarily driven by our acquisition of CB Richard Ellis Gunne in Ireland and Dalgleish & Company in the United Kingdom during the latter half of 2005. Foreign currency translation had a \$2.2 million negative impact on total revenue during the three months ended June 30, 2006.

Cost of services increased \$20.6 million, or 37.5%, mainly as a result of higher producer compensation expense, including bonuses, as well as increased commission expense, all of which were primarily driven by higher revenue and increased headcount primarily resulting from acquisitions. Foreign currency translation had a \$1.1 million positive impact on cost of services during the three months ended June 30, 2006. Cost of services as a percentage of revenue remained relatively consistent at 44.3% for the three months ended June 30, 2006 in comparison to 44.6% for the three months ended June 30, 2005.

Operating, administrative and other expenses increased by \$4.6 million, or 8.3%, mainly due to higher payroll-related costs, including bonuses as well as increased marketing costs in the region, which were primarily due to improved results combined with the impact of in-fill acquisitions. Foreign currency translation had a \$1.2 million positive impact on total operating expenses during the three months ended June 30, 2006.

Asia Pacific

Revenue increased by \$41.4 million, or 95.6%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. Much of the increase was driven by our acquisition of an additional stake in our Japanese affiliate, IKOMA, taking our equity interest in IKOMA to 51% in early January 2006, which led to our consolidation of IKOMA's results. Foreign currency translation had a \$3.3 million negative impact on total revenue during the three months ended June 30, 2006.

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Cost of services increased by \$21.9 million, or 106.8%, mainly due to higher commissions and additional headcount, both of which were attributable to our consolidation of IKOMA. Cost of services as a percentage of revenue increased from 47.3% for the three months ended June 30, 2005 to 50.0% for the three months ended June 30, 2006, primarily driven by a higher transaction commission rate at IKOMA, which we expect to improve upon full integration. Foreign currency translation had a \$1.9 million positive impact on cost of services for the three months ended June 30, 2006.

Operating, administrative and other expenses increased by \$13.2 million, or 84.3%, primarily due to an increase in payroll-related costs, including bonuses, as well as higher marketing costs, which largely resulted from our consolidation of IKOMA as well as other smaller in-fill acquisitions made in Australia. Foreign currency translation had a \$1.1 million positive impact on total operating expenses during the three months ended June 30, 2006.

Global Investment Management

Revenue increased by \$11.2 million, or 70.3%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. The increase was largely driven by higher core asset management fees earned in France and the United States. Foreign currency translation had a \$0.5 million negative impact on total revenues during the three months ended June 30, 2006.

Operating, administrative and other expenses increased by \$6.7 million, or 32.2%, primarily driven by higher bonus expense resulting from improved results, as well as increased carried interest incentive compensation expense of \$1.9 million recognized in the three months ended June 30, 2006 for dedicated executives and team leaders with participation interests in certain real estate investments under management. During the three months ended June 30, 2006, we recorded a total of \$6.9 million of incentive compensation expense related to carried interest revenue, none of which pertained to revenue recognized in the second quarter of 2006. Revenue associated with these expenses cannot be recognized until certain financial hurdles are met. We expect that income we will recognize from funds liquidating in the remainder of 2006 and future years will more than offset the accrued incentive compensation expense recognized in the second quarter of 2006. Foreign currency translation had a \$0.2 million positive impact on total operating expenses during the three months ended June 30, 2006.

Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005

Americas

Revenue increased by \$137.1 million, or 15.7%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. This largely organic revenue increase was primarily driven by improved leasing activity, continued strong investment sales activity, as well as higher appraisal/valuation and property and facilities management fees. Foreign currency translation had a \$4.7 million positive impact on total revenue during the six months ended June 30, 2006.

Cost of services increased by \$72.6 million, or 15.7%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005, primarily due to higher commission expense and bonus accruals as a result of the overall increase in revenue. Foreign currency translation had a \$2.0 million negative impact on cost of services during the six months ended June 30, 2006. Cost of services as a percentage of revenue was flat between periods at 53.2% for both the six months ended June 30, 2006 and 2005.

Operating, administrative and other expenses increased \$38.0 million, or 13.1%, mainly driven by higher payroll-related costs, which primarily resulted from supporting our growing revenues. Foreign currency translation had a \$2.6 million negative impact on total operating expenses during the six months ended June 30, 2006.

EMEA

Revenue increased by \$80.3 million, or 35.6%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. Organic revenue growth accounted for slightly more than half of this increase, with the remainder resulting from in-fill acquisitions completed in 2005 and earlier in 2006. The organic revenue increase was primarily driven by higher transaction revenue, particularly in the United Kingdom, France and Germany, as well as increased appraisal/valuation revenue throughout the region. The overall increase related to in-fill acquisitions was primarily driven by our acquisition of CB Richard Ellis Gunne in Ireland and Dalgleish & Company in the United Kingdom during the latter half of 2005. Foreign currency translation had a \$15.3 million negative impact on total revenue during the six months ended June 30, 2006.

Cost of services increased \$34.2 million, or 32.7%, mainly as a result of higher producer compensation expense, including bonuses, as well as increased commission expense, all of which were primarily driven by higher revenue and increased headcount primarily resulting from acquisitions. Foreign currency translation had a \$7.3 million positive impact on cost of services during the six months ended June 30, 2006. Cost of services as a percentage of revenue decreased slightly from 46.5% for the six months ended June 30, 2005 to 45.5% for the six months ended June 30, 2006, primarily driven by certain producer costs remaining fixed while we experienced a significant increase in revenue, particularly in France.

Operating, administrative and other expenses increased by \$6.8 million, or 6.5%, mainly due to higher payroll-related costs, including bonuses, as well as increased marketing costs in the region, which were primarily due to improved results combined with the impact of in-fill acquisitions. Foreign currency translation had a \$6.2 million positive impact on total operating expenses during the six months ended June 30, 2006.

Asia Pacific

Revenue increased by \$68.2 million, or 88.4%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. Much of the increase was driven by our acquisition of an additional stake in our Japanese affiliate, IKOMA, taking our equity interest in IKOMA to 51% in early January 2006, which led to our consolidation of IKOMA's results. Foreign currency translation had a \$6.9 million negative impact on total revenue during the six months ended June 30, 2006.

Cost of services increased by \$39.4 million, or 101.7%, mainly due to higher commissions and additional headcount, both of which were attributable to our consolidation of IKOMA. Cost of services as a percentage of revenue increased from 50.3% for the six months ended June 30, 2005 to 53.8% for the six months ended June 30, 2006, primarily driven by a higher transaction commission rate at IKOMA, which we expect to improve upon full integration. Foreign currency translation had a \$4.2 million positive impact on cost of services for the six months ended June 30, 2006.

Operating, administrative and other expenses increased by \$22.9 million, or 78.4%, primarily due to an increase in payroll-related costs, including bonuses, as well as higher marketing costs, which largely resulted from our consolidation of IKOMA. Foreign currency translation had a \$2.5 million positive impact on total operating expenses during the six months ended June 30, 2006.

Global Investment Management

Revenue increased by \$20.4 million, or 55.0%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. The increase was mainly driven by higher core asset management fees and carried interest revenue earned in the United States as well as higher performance and core asset management fees earned in France and the United Kingdom. Foreign currency translation had a \$2.4 million negative impact on total revenues during the six months ended June 30, 2006.

Operating, administrative and other expenses increased by \$16.0 million, or 40.1%, primarily due to higher bonus expense resulting from improved results, as well as increased carried interest incentive compensation expense of \$6.2 million recognized for dedicated executives and team leaders with participation interests in certain real estate investments under management. During the six months ended June 30, 2006, we recorded a total of \$16.2 million of incentive compensation expense related to carried interest revenue, a small part of which pertained to revenue recognized in the first half of 2006 with the remainder (approximately \$15.9 million) relating to future periods' revenue. Revenue associated with these expenses cannot be recognized until certain financial hurdles are met. We expect that income we will recognize from funds liquidating in the remainder of 2006 and future years will more than offset the \$15.9 million additional incentive compensation expense accrued in the first half of 2006. Foreign currency translation had a \$0.8 million positive impact on total operating expenses during the six months ended June 30, 2006.

Liquidity and Capital Resources

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under our new revolving credit facility described below. Included in the capital requirements that we expect to fund during 2006 is approximately \$44.6 million of anticipated net capital expenditures, including \$4.0 million associated with recent in-fill acquisitions. During the six months ended June 30, 2006, we funded approximately \$22.1 million of these net capital expenditures. The capital expenditures for 2006 are primarily comprised of information technology costs, which are driven largely by computer replacements as well as costs associated with upgrading various servers and systems, and leasehold improvements.

During 2001 and 2003, we required substantial amounts of new equity and debt financing to fund our acquisitions of CB Richard Ellis Services and Insignia. 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 expenditure and investment requirements. As a result, our management anticipates that our cash flow from operations and new revolving credit facility will be sufficient to meet our anticipated cash requirements for the foreseeable future, but at a minimum for the next twelve months.

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

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, which now primarily consists of our 9 $\frac{3}{4}$ % senior notes due in 2010. On June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11 $\frac{1}{4}$ % senior subordinated notes. Additionally, in June 2006, we entered into a new \$600.0 million revolving credit facility, which fully replaced our former credit agreement on more favorable terms. In the future, we will continue to look for opportunities to reduce our debt from time to time. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot make any assurances that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

The other primary component of our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, are our obligations related to our deferred compensation plans and our U.K. pension plans. Pursuant to our deferred compensation plans, a select group of our management and other highly-compensated employees have been permitted to defer receipt of some or all of their compensation until future distribution dates and have the deferred amount credited towards specified investment alternatives. Except for deferrals into stock fund units that provide for future issuances of our common stock, the deferrals under the deferred compensation plans represent future cash payment obligations for us. We currently have invested in insurance and mutual funds for the purpose of funding our future cash deferred compensation obligations. In addition, upon each distribution under the plans, we receive a corresponding tax deduction for such compensation payment. Our U.K. subsidiaries maintain pension plans with respect to which a limited number of our U.K. employees are participants. Our historical policy has been to fund pension costs as actuarially determined and as required by applicable law and regulations. As of December 31, 2005, based upon actuarial calculations of future benefit obligations under these plans, they were in the aggregate approximately \$57.4 million underfunded.

Our management expects that any future obligations under our deferred compensation plans and pension plans that are not currently funded will be funded out of our future cash flow from operations.

Historical Cash Flows

Operating Activities

Net cash used in operating activities totaled \$77.5 million for the six months ended June 30, 2006, an increase of \$88.7 million as compared to the six months ended June 30, 2005. The increase in net cash used in operating activities was primarily due to higher tax and bonus payments in the current year, both of which resulted from the improved operating performance experienced in 2005 versus 2004. Also contributing to the increase were higher deposits in the United Kingdom, primarily made to replace a letter of credit requirement related to one of our leases, as well as an increase in prepaid compensation in the current year. These increases in cash used in operating activities were partially offset by the improved operating performance experienced during the six months ended June 30, 2006 in comparison to the six months ended June 30, 2005 as well as an increase in deferred compensation arrangements and deferred revenue recognized relative to a fund in our Global Investment Management segment.

Investing Activities

Net cash used in investing activities totaled \$78.3 million for the six months ended June 30, 2006, representing an increase of \$26.1 million as compared to the six months ended June 30, 2005. The increase was primarily due to the use of cash for in-fill acquisitions as well as higher capital expenditures in the current year. These increases were partially offset by the purchase of a property held for sale during the six months ended June 30, 2005.

Financing Activities

Net cash used in financing activities totaled \$170.8 million for the six months ended June 30, 2006 as compared to \$20.7 million for the six months ended June 30, 2005. The increase in net cash used in financing activities was primarily driven by the repayment of the remaining outstanding balance of our 11 $\frac{1}{4}$ % senior subordinated notes during the current year.

Initial and Secondary Public Offerings

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock. In connection with the initial public offering, 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 initial public offering, 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 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 sale of shares by the selling stockholders on June 15, 2004, July 14, 2004, December 13, 2004 and November 15, 2005.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as subsequent rules to the same extent enacted by the Securities and Exchange Commission and the New York Stock Exchange have required changes in corporate governance practices of public companies. These rules and regulations, including Section 404 of the Sarbanes-Oxley Act and the related rules and regulations, have increased our legal and financial compliance costs.

Indebtedness

Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness and other obligations. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase.

Most of our long-term indebtedness was incurred in connection with our acquisition of CB Richard Ellis Services in July 2001 and the Insignia Acquisition in July 2003. 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 advisory services and outsourcing services businesses as well as significantly increased our presence in the New York, London and Paris metropolitan areas.

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 June 26, 2006, we entered into a new \$600.0 million multi-currency senior secured revolving credit facility (the Credit Agreement) with a syndicate of banks led by CS, as administrative and collateral agent, which fully replaced our prior credit agreement. In connection with the replacement of our prior credit facility, we wrote off \$8.2 million of unamortized deferred financing fees during the three months ended June 30, 2006.

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 and (2) the ability to borrow an additional \$200.0 million, subject to the satisfaction of customary conditions. The \$600.0 million revolving credit facility allows for borrowings outside of the United States, 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.

Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either 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 June 30, 2006, we had \$248.0 million of revolving credit facility principal

outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets. As of June 30, 2006, letters of credit totaling \$1.5 million were outstanding, which letters of credit primarily relate to our subsidiaries outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

Our previous credit agreement included the following: (1) a term loan facility of \$295.0 million, which required quarterly principal payments of \$2.95 million beginning December 31, 2004 through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$150.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on March 31, 2009. Our previous credit agreement also permitted us to make additional borrowings under a term loan facility of up to \$25.0 million, subject to the satisfaction of customary conditions.

Borrowings under the term loan facility bore interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate was the higher of (1) CS's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt balances in the accompanying consolidated balance sheets was \$265.3 million as of December 31, 2005.

Borrowings under the previous revolving credit facility bore interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the previous credit agreement). There was no revolving credit facility principal outstanding as of December 31, 2005.

The prior credit facilities were, and the Credit Agreement continues to be, jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. The prior credit facilities were secured by a pledge of substantially all of our domestic assets, while 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.

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

included in the accompanying consolidated balance sheets was \$130.0 million as of both June 30, 2006 and December 31, 2005.

In June 2001, in order to partially finance our acquisition of CB Richard Ellis Services, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CB Richard Ellis Services assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the merger of Blum CB Corp. with and into CB Richard Ellis Services on July 20, 2001. The 11¼% senior subordinated notes were unsecured senior subordinated obligations of CB Richard Ellis Services and were jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes required semi-annual payments of interest in arrears on June 15 and December 15 and were 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. During the year ended December 31, 2004, we repurchased \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid \$3.1 million of premiums and wrote off \$0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. During the year ended December 31, 2005, we repurchased an additional \$42.7 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of \$5.9 million of premiums and wrote off \$1.5 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. As permitted by the indenture governing these notes, on June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11¼% senior subordinated notes at 105.625% of par. In connection with this early redemption, we paid a \$9.3 million premium and wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$163.0 million as of December 31, 2005.

Our Credit Agreement and the indenture governing our 9¾% senior notes 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, 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 certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

From time to time, Moody's Investor Service and Standard & Poor's Ratings Service rate our 9¾% senior notes. On April 4, 2006, Moody's Investor Service upgraded its rating of our 9¾% senior notes from Ba3 to Ba1 and stated its rating outlook was stable. On May 1, 2006, Standard & Poor's Rating Service raised our credit rating from BB- to BB+ on our 9¾% senior notes and stated its ratings outlook was stable. Neither the Moody's nor the Standard & Poor's ratings impact our ability to borrow under our Credit Agreement. However, these ratings may impact our ability to borrow under new agreements in the future and the interest rates of any such future borrowings.

Our wholly-owned subsidiary, CBRE Melody, has credit agreements with Washington Mutual Bank, FA, or WaMu, and JP Morgan Chase Bank, N.A., or JP Morgan, for the purpose of funding mortgage loans that will be resold. The credit agreement with WaMu was previously with Residential Funding Corporation, or RFC. On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provided for a warehouse line of credit of up to \$250.0 million, bore interest at one-month LIBOR plus 1.0% and expired on September 1, 2005. This agreement provided for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated

Credit and Security Agreement by WaMu. During the latter half of 2005 and continuing into 2006, we executed several amendments extending the warehouse line of credit with WaMu, the last of which extended the agreement until July 1, 2006.

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 replaced the warehouse line of credit with WaMu, which expired on July 1, 2006. 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 mortgage has 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 expires on November 14, 2006.

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%. All outstanding principal on this note and all accrued interest unpaid shall be finally due and payable on demand, or if no demand is made, then on or before July 31, 2007.

During the six months ended June 30, 2006, we had a maximum of \$399.8 million of warehouse lines of credit principal outstanding. As of June 30, 2006 and December 31, 2005, we had \$17.7 million and \$256.0 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 \$17.7 million and \$256.0 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, 2006 and December 31, 2005, respectively, and which are also included 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. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement. On May 31, 2005, with the exception of one note holder, we entered into an amendment to eliminate a letter of credit requirement and adjust the interest rate to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement plus twelve basis points. This interest rate is now equal to the interest rate in effect with amounts outstanding under our Credit Agreement plus twelve basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$11.2 million and \$11.6 million as of June 30, 2006 and December 31, 2005, respectively.

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 June 30, 2006 and December 31, 2005,

\$3.1 million and \$4.6 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

In January 2006, we acquired an additional stake in our Japanese affiliate IKOMA, which increased our total equity interest in IKOMA to 51%. As a result, we are now consolidating IKOMA's financial statements, which include debt. IKOMA utilizes short-term borrowings to assist in funding its working capital requirements. As of June 30, 2006, IKOMA had \$7.0 million of debt outstanding, which is 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, 2006, and December 31, 2005, there were no amounts outstanding under this facility.

Deferred Compensation Plan Obligations

We currently have two deferred compensation plans, one of which has been frozen and is no longer accepting deferrals, which we refer to as the Old DCP, and one of which became effective on August 1, 2004 and began accepting deferrals on August 13, 2004, which we refer to as the New DCP. Because a substantial majority of the deferrals under both the Old DCP and the New DCP have a distribution date based upon the end of the relevant participant's employment with us, we have an ongoing obligation to make distributions to these participants as they leave our employment. In addition, participants currently may receive unscheduled in-service withdrawals subject to a 7.5% penalty. As the level of employee departures or in-service distributions is not predictable, the timing of these obligations also is not predictable. Accordingly, we may face significant unexpected cash funding obligations in the future if a larger number of our employees take in-service distributions or leave our employment sooner than we expect. The deferred compensation liability in the accompanying consolidated balance sheets was \$204.0 million and \$188.9 million at June 30, 2006 and December 31, 2005, respectively.

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 the accompanying consolidated balance sheets was \$44.4 million and \$41.2 million at June 30, 2006 and December 31, 2005, respectively. We expect to contribute a total of \$7.5 million to fund our pension plan for the year ended December 31, 2006, of which \$3.9 million was funded as of June 30, 2006.

Other Obligations and Commitments

We had an outstanding letter of credit totaling \$0.4 million as of June 30, 2006, excluding letters of credit related to our subsidiaries' outstanding indebtedness and operating leases. The \$0.4 million outstanding letter of credit is a Fannie Mae letter of credit executed by CBRE Melody and expires on December 10, 2006. However, we are required to renew this letter of credit until our obligation to cover our portion of certain potential credit losses is satisfied.

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We had guarantees totaling \$3.0 million as of June 30, 2006, which include various guarantees of management contracts in our operations overseas as well as a guarantee to Fannie Mae for \$0.4 million. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007. The other guarantees will expire at the end of each of the respective management agreements.

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, 2006, we had committed \$35.8 million to fund future co-investments, of which \$16.3 million is expected to be funded during 2006. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

Seasonality

A significant portion of our revenue is seasonal, which can affect an investor's 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.

Derivatives and Hedging Activities

In the normal course of business, we sometimes utilize derivative financial instruments in the form of foreign currency exchange forward and option contracts to mitigate foreign currency exchange exposure resulting from inter-company loans, expected cash flow and earnings. We do not engage in any speculative activities with respect to foreign currency. On April 17, 2006, we entered into foreign currency exchange forward contracts with an aggregate notional amount of approximately \$23.9 million, which expire on various dates through December 29, 2006. On April 19, 2006, we entered into two option agreements to purchase an aggregate notional amount of 44.0 million British pounds sterling and 46.0 million euros, both of which expire on December 27, 2006. There was no significant net impact on our earnings resulting from gains and/or losses on foreign currency exchange forward and option contracts for the three and six months ended June 30, 2006.

We also enter into loan commitments that relate to the origination or acquisition of commercial mortgage loans that will be held for resale. Statement of Financial Accountings Standards, or SFAS, No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires that these commitments be recorded at their relative fair values as derivatives. The net impact on our financial position for the three and six months ended June 30, 2006 resulting from these derivative contracts was not significant.

New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board, or FASB, issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS No. 155. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. It also establishes a

requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain embedded derivatives requiring bifurcation. The statement will be effective for all financial instruments acquired or issued during fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS No. 155 to have a material effect on our consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, or SFAS No. 156. SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and liabilities. The statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. It also requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It provides an entity with the choice of either amortizing servicing assets and liabilities in proportion to and over the period of estimated net servicing income or net servicing loss or to measure servicing assets and liabilities at fair value and report changes in fair value in current period earnings. The statement will be effective as of the beginning of the first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 156 to have a material effect on our consolidated financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting for derecognition, interest, penalties, accounting in interim periods, disclosure and classification of matters related to uncertainty in income taxes, and transitional requirements upon adoption of FIN 48. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of the adoption of FIN 48 on our consolidated financial position and results of operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words anticipate, believe, could, should, propose, continue, estimate, intend, may, plan, predict, project, will and similar terms and phrases are used in this Quarterly Report on Form 10-Q to identify forward-looking statements. 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, but are not only 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;

- our ability to compete globally, or in specific geographic markets or business segments that are material to us;
- changes in social, political and economic conditions in the foreign countries in which we operate;
- foreign currency fluctuations;
- our ability to complete future acquisitions on favorable terms;
- integration issues and costs relating to acquired businesses;
- an economic downturn in the California commercial real estate market;
- significant variability in our results of operations among quarters;
- our leverage and debt service obligations and ability to incur additional indebtedness;
- our ability to generate a sufficient amount of cash to satisfy working capital requirements and 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 ability of our Global Investment Management segment to realize values in investment funds to offset incentive compensation expense related thereto;
- changes in the key components of revenue growth for large commercial real estate services companies, including consolidation of client accounts and increasing levels of institutional ownership of commercial real estate;
- reliance of companies on outsourcing for their commercial real estate needs;
- our ability to leverage our global services platform to maximize and sustain long-term cash flow;
- our ability to maximize cross-selling opportunities;
- trends in use of large, full-service real estate providers;
- diversification of our client base;
- improvements in operating efficiency;
- protection of our global brand;
- trends in pricing for commercial real estate services;

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- the ability of CBRE Melody to periodically amend, or replace, on satisfactory terms the agreements for its indebtedness;
- our ability to achieve annual cash interest savings;
- the effect of implementation of new tax and accounting rules and standards; and

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- the other factors described in our Annual Report on Form 10-K, included under the heading Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies, and Quantitative and Qualitative Disclosures about Market Risk.

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. Additional information concerning these and other risks and uncertainties is contained in our other periodic filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information in this section should be read in connection with the information on market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2005. 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.

During the six months ended June 30, 2006, approximately 35.8% of our business was transacted in local currencies of foreign countries, the majority of which includes the Euro, the British pound sterling, the Canadian dollar, the Hong Kong dollar, the Japanese yen, 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 currencies only at levels necessary for operating purposes. In the normal course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange contracts to mitigate foreign currency exchange exposure resulting from inter-company loans, expected cash flow and earnings. We do not engage in any speculative activities with respect to foreign currency. On April 17, 2006, we entered into foreign currency exchange forward contracts with an aggregate notional amount of approximately \$23.9 million, which expire on various dates through December 29, 2006. On April 19, 2006, we entered into two option agreements to purchase an aggregate notional amount of 44.0 million British pounds sterling and 46.0 million euros, both of which expire on December 27, 2006. There was no significant net impact on our earnings resulting from gains and/or losses on foreign currency exchange forward contracts and option contracts for the three and six months ended June 30, 2006.

On June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11 1/4% senior subordinated notes. In connection with this early redemption, we paid a premium of \$9.3 million and wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount. Additionally, in June 2006, we entered into a new \$600.0 million revolving credit facility, which fully replaced our former credit agreement on more favorable terms. In connection with the replacement of our prior credit facility, we wrote off \$8.2 million of unamortized deferred financing fees. The redemption of the remaining outstanding balance of our 11 1/4% senior subordinated notes combined with the replacement of our prior credit agreement on more favorable terms will result in annual interest savings of approximately \$25.0 million, with one-half of that amount to be realized in 2006.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 63 basis points, which would comprise approximately 10% of the weighted average interest rates of our outstanding variable rate debt at June 30, 2006, the net impact would be a decrease of

\$0.9 million on income before provision for income taxes and cash provided by operating activities for the six months ended June 30, 2006.

Based on dealers' quotes at June 30, 2006, the estimated fair value of our 9 $\frac{3}{4}$ % senior notes was \$139.1 million. Estimated fair values for the remaining long-term debt instruments are not presented because we believe that they are not materially different from book value, primarily because the substantial majority of this debt is based on variable rates that approximate terms that we believe could be obtained at June 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

We have formally adopted a policy for disclosure controls and procedures that provides guidance on the evaluation of disclosure controls and procedures and is designed to ensure that all corporate disclosure is complete and accurate in all material respects and that all information required to be disclosed in the periodic reports submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods and in the manner specified in the Securities and Exchange Commission's rules and forms. As of the end of the period covered by this report, we carried out our evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. A Public Disclosure Committee consisting of the Principal Accounting Officer, General Counsel, Chief Communications Officer, senior officers of each significant business line and other select employees assisted the Chief Executive Officer and the Chief Financial Officer in this evaluation. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarterly period covered by this report.

No changes in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2006 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

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 that may result from the disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in our Form 10-K for the annual period ending December 31, 2005.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The following matters were submitted to a vote of our security holders at the Annual Meeting of Stockholders of CB Richard Ellis Group, Inc., which was held at 8:30 a.m. Pacific Standard Time, on June 1, 2006 at the Ritz Carlton Hotel, Marina del Rey, located at 4375 Admiralty Way, Marina del Rey, California.

The three proposals presented at the meeting were:

1. To elect 11 directors to our Board of Directors.
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the 2006 fiscal year.
3. To approve our Amended Executive Bonus Plan.

(b) Not required.

(c) The voting results were as follows (each of the following vote counts do not give effect to the three-for-one stock split of our Class A common stock on June 1, 2006):

1. Each of the 11 directors was elected to our Board of Directors to serve until the next annual meeting of stockholders in 2007 or until their respective successors are elected and qualified and received the number of votes set forth below. There were no abstentions or broker non-votes.

| Name | For | Withheld |
|---------------------------|------------|-----------|
| Richard C. Blum | 62,554,857 | 4,501,559 |
| Jeffrey A. Cozad | 63,466,777 | 3,589,639 |
| Patrice Marie Daniels | 66,091,848 | 964,568 |
| Senator Thomas A. Daschle | 66,064,763 | 991,653 |
| Bradford M. Freeman | 64,111,623 | 2,944,793 |
| Michael Kantor | 60,478,136 | 6,578,280 |
| Frederic V. Malek | 63,938,607 | 3,117,809 |
| John G. Nugent | 63,619,424 | 3,436,992 |
| Brett White | 64,453,102 | 2,603,314 |
| Gary L. Wilson | 66,089,479 | 966,937 |
| Ray Wirta | 63,619,703 | 3,436,713 |

2. The ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the 2006 fiscal year was approved by a vote of

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65,240,559 shares in favor, 1,714,443 shares against, and 101,414 shares abstaining. There were no broker non-votes.

3. Our Amended Executive Bonus Plan was approved by a vote of 62,439,367 shares in favor, 4,408,883 shares against, and 208,166 shares abstaining. There were no broker non-votes.

ITEM 6. EXHIBITS

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Exhibit

Number

| | Description |
|---------|--|
| 3.1 | Form of Restated Certificate of Incorporation of CB Richard Ellis Group, Inc. filed on June 15, 2004 (incorporated by reference to Exhibit 3.3 of the CB Richard Ellis Group Inc. Amendment No. 4 to Registration Statement on Form S-1 filed with the SEC (No. 333-112867) on June 7, 2004) |
| 3.2 | Form of Restated By-laws of CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 3.5 of the CB Richard Ellis Group Inc. Amendment No. 4 to Registration Statement on Form S-1 filed with the SEC (No. 333-112867) on June 7, 2004) |
| 4.2(a) | Securityholders Agreement, dated as of July 20, 2001 (Securityholders Agreement), by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc., 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., Credit Suisse First Boston Corporation, DLJ Investment Funding, Inc., The Koll Holding Company, Frederic V. Malek, the management investors named therein and the other persons from time to time party thereto (incorporated by reference to Exhibit 25 to Amendment No. 9 to Schedule 13D with respect to CB Richard Ellis Services, Inc. filed with the SEC on July 25, 2001) |
| 4.2(b) | Amendment and Waiver to Securityholders Agreement, dated as of April 14, 2004, by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and the other parties to the Securityholders Agreement (incorporated by reference to Exhibit 4.2(b) of the CB Richard Ellis Group, Inc. Amendment No. 2 to Registration Statement on Form S-1 filed with the SEC (No. 333-112867) on April 30, 2004) |
| 4.2(c) | Second Amendment and Waiver to Securityholders Agreement, dated as of November 24, 2004, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement (incorporated by reference to Exhibit 4.2(c) of the CB Richard Ellis Group, Inc. Amendment No. 1 to Registration Statement on Form S-1 filed with the SEC (No. 333-120445) on November 24, 2004) |
| 4.2(d) | Third Amendment and Waiver to Securityholders Agreement, dated as of August 1, 2005, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and the other parties thereto (incorporated by reference to Exhibit 4.1 of the CB Richard Ellis Group, Inc. Form 8-K filed with the SEC on August 2, 2005) |
| 10.1(e) | Credit Agreement, dated as of June 26, 2006, among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., certain Subsidiaries of CB Richard Ellis Services, Inc., the Lenders named herein and Credit Suisse, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 of the CB Richard Ellis Group, Inc. Form 8-K filed with the SEC on July 27, 2006) |

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- 10.1(f) Guarantee and Pledge Agreement, dated as of June 26, 2006, among CB Richard Ellis Services, Inc., CB Richard
Ellis Group, Inc., the Subsidiaries of CB Richard Ellis Services, Inc., from time to time party hereto and Credit
Suisse, as Collateral Agent (incorporated by reference to Exhibit 10.2 of the CB Richard Ellis Group, Inc. Form
8-K filed with the SEC on July 27, 2006)
- 11 Statement concerning Computation of Per Share Earnings (filed as Note 11 of the Consolidated Financial
Statements)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934,
as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002*
- 32 Certifications by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted
pursuant to §906 of the Sarbanes-Oxley Act of 2002*
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* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 9, 2006

CB RICHARD ELLIS GROUP, INC.

/s/ KENNETH J. KAY

Kenneth J. Kay

Chief Financial Officer (principal financial officer)

/s/ GIL BOROK

Gil Borok

Global Controller (principal accounting officer)

Date: August 9, 2006