

2004 Annual Report

Put the client **FIRST**—always. Tailor our services to the client's needs. **THINK INNOVATIVELY**, but act practically. Help the client make the most **INFORMED** business decisions. **DELIVER RESULTS.**



7 World Trade Center,
New York



Shard London Bridge Tower,
London



AIG Tower,
Hong Kong

CB Richard Ellis traces its roots back nearly a century in the United States and more than 225 years in Europe. Today, we're the industry leader. A global brand that is synonymous with excellence in real estate services.

Notes to Graphs

(3) Reconciliation of Normalized EBITDA to EBITDA to Net Income (Loss)

(\$ in millions)	Year Ended December 31,		
	2004	2003	2002
Normalized EBITDA	\$300.3	\$183.2	\$130.7
Less:			
Merger-related charges related to the Insignia acquisition	25.6	36.8	—
Integration costs related to the Insignia acquisition	14.3	13.6	—
One-time compensation expense related to the initial public offering	15.0	—	—
EBITDA	245.4	132.8	130.7
Add:			
Interest income	4.2	3.6	3.2
Less:			
Depreciation and amortization	54.9	92.6	24.6
Interest expense	65.4	71.3	60.5
Loss on extinguishment of debt	21.1	13.5	—
Provision (benefit) for income taxes	43.5	(6.3)	30.1
Net income (loss)	\$ 64.7	\$ (34.7)	\$ 18.7

(4) Reconciliation of Net Income (Loss) to Net Income, as Adjusted

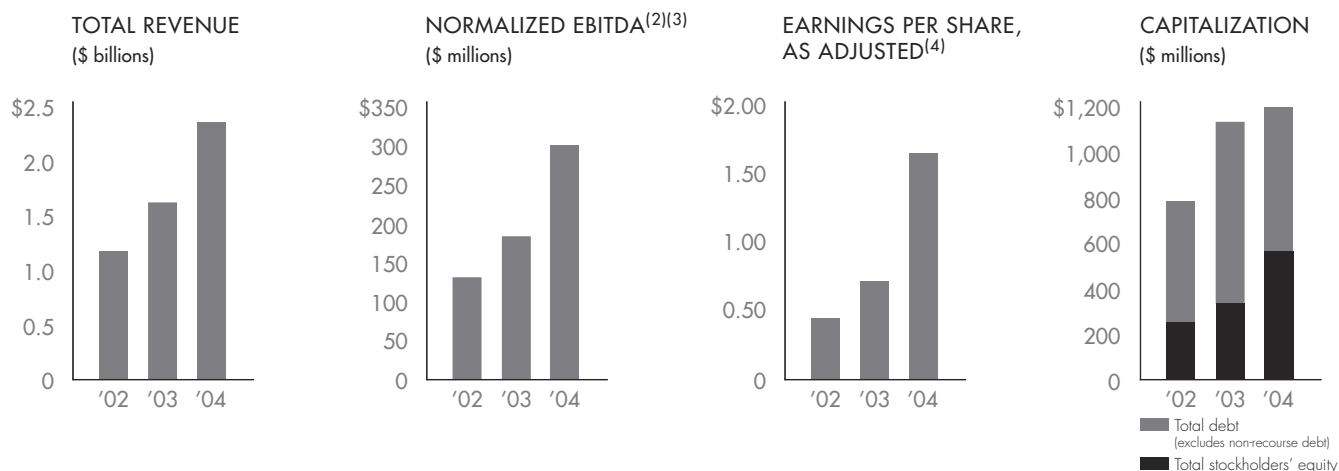
(\$ in millions, except share data)	Year Ended December 31,		
	2004	2003	2002
Net income (loss)	\$ 64.7	\$ (34.7)	\$ 18.7
Amortization related to net revenue backlog acquired in the Insignia acquisition, net of tax	8.1	38.6	—
Merger-related charges related to the Insignia acquisition, net of tax	16.0	24.0	—
Integration costs related to the Insignia acquisition, net of tax	9.0	8.9	—
One-time compensation expense related to the initial public offering, net of tax	9.4	—	—
Loss on extinguishment of debt related to initial public offering, net of tax	10.7	—	—
Net income, as adjusted	\$117.9	\$36.8	\$18.7
Diluted income per share, as adjusted	\$ 1.65	\$ 0.71	\$ 0.44
Weighted average shares outstanding for diluted income per share, as adjusted	71,345,073	51,767,807 ⁽¹⁾	42,185,989

(1) With adjustments to arrive at "Net income, as adjusted," a net loss translates into a net income position on an adjusted basis. Accordingly, the weighted average impact of the dilutive effect of potential common shares of 849,235 have been considered in determining the diluted earnings per share impact on an adjusted basis for the year ended December 31, 2003.

FINANCIAL HIGHLIGHTS

Selected Financial Data

<i>In thousands, except share data</i>	2004	2003 ⁽¹⁾	2002
Revenue	\$2,365,096	\$1,630,074	\$1,170,277
Depreciation and amortization	54,857	92,622	24,614
Operating income	171,008	25,830	96,736
Equity income from unconsolidated subsidiaries	19,475	14,365	9,326
Interest expense, net	61,154	67,696	57,229
Loss on extinguishment of debt	21,075	13,479	—
Income (loss) before provision (benefit) for income taxes	108,254	(40,980)	48,833
Net income (loss) ⁽⁴⁾	64,725	(34,704)	18,727
Earnings per share			
Basic	0.95	(0.68)	0.45
Diluted	0.91	(0.68)	0.44
Weighted average shares			
Basic	67,775,406	50,918,572	41,640,576
Diluted	71,345,073	50,918,572	42,185,989
EBITDA ⁽²⁾⁽³⁾	\$ 245,340	\$ 132,817	\$ 130,676



(1) The results for the year ended December 31, 2003 include the operations of Insignia Financial Group from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.

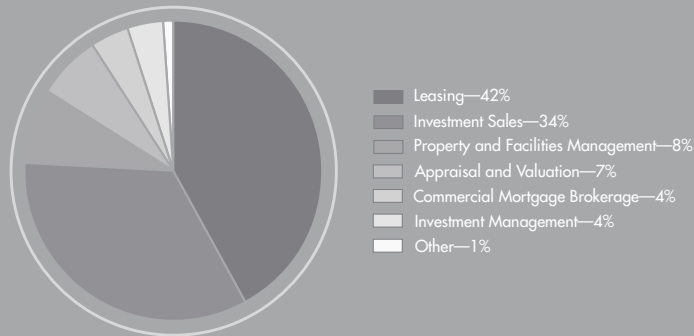
(2) EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA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

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

(3) See footnote on adjacent page.

(4) See footnote on adjacent page.

2004 REVENUES BY BUSINESS LINE



AT-A-GLANCE

THE AMERICAS

ADVISORY SERVICES

Corporations, institutions and other users of real estate services have been increasingly consolidating their relationships with fewer service providers that have depth of resources, a full array of services and broad geographic reach. CB Richard Ellis is well positioned to continue capitalizing on this trend.

Our advisory services are organized along the following service lines:

- *Real Estate Services.* We provide strategic advice and execution to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property, establishing lasting relationships with clients. During 2004, we advised on sales and leasing transactions with a combined aggregate value of approximately \$79.7 billion.
- *Mortgage Loan Origination and Servicing.* Our wholly owned subsidiary, L.J. Melody, originates and services commercial mortgage loans primarily through its relationships with banks, credit companies, insurance companies, pension funds and government agencies. During 2004, L.J. Melody completed \$13.3 billion in debt and equity transactions, representing a 21.0% increase in total volume from 2003.
- *Valuation.* We provide market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions. During 2004, we completed over 14,000 of these types of assignments.

OUTSOURCING SERVICES

Outsourcing is a long-term trend in commercial real estate, with corporations, institutions and others seeking to achieve improved efficiency, better execution and lower costs by relying on the expertise of third-party real estate specialists. We believe our contractual relationships with these clients put us in an advantageous position to provide them with other services, including refinancing, disposition and appraisal. As of December 31, 2004, we managed approximately 575 million square feet (including affiliate and partner offices) of commercial space for property owners and occupiers in the Americas, which we believe represents one of the region's largest portfolios.

- *Asset Services.* We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors.
- *Corporate Services.* We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios.



EUROPE, MIDDLE EAST & AFRICA (EMEA)

EMEA has offices in 29 countries, with its largest operations located in the United Kingdom, France, Spain, the Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services. We are one of the leading commercial real estate services companies in the United Kingdom and hold the leading market position in London. We also believe we are a market leader in Paris.

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

ASIA PACIFIC

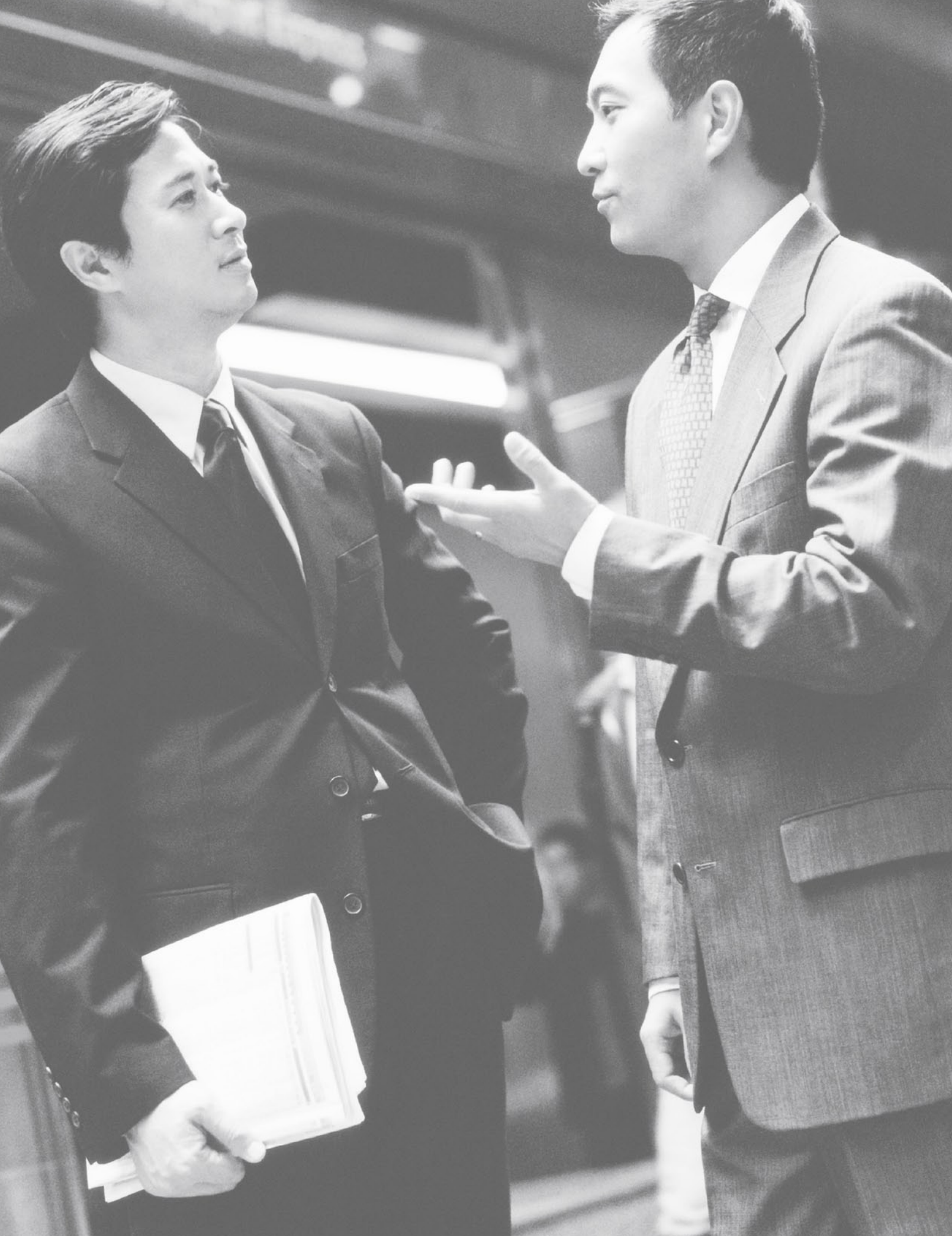
With offices in 12 countries, we believe we are one of only a few companies that can provide a full range of real estate services to large corporations throughout the region. Our principal operations in Asia are located in China, Hong Kong, Singapore, South

Korea and Japan. In addition, we have affiliated offices in India, the Philippines, Thailand, Indonesia and Vietnam. The Pacific region includes operations in Australia and New Zealand.

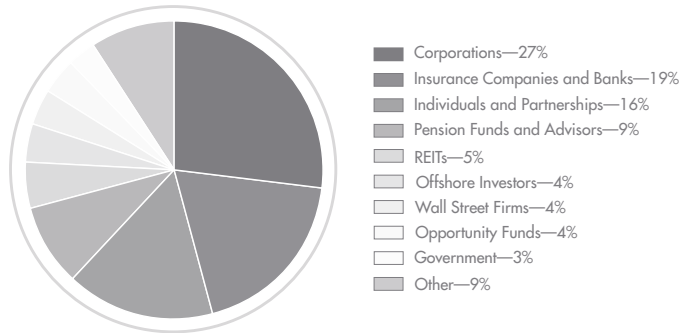
GLOBAL INVESTMENT MANAGEMENT

Our wholly owned subsidiary, CB Richard Ellis Investors, is a global real estate investment powerhouse on three continents with more than \$15 billion in assets under management spanning the full risk/return spectrum. CBRE Investors provides investment management services to pension plans and other institutional investors seeking to generate returns and diversification through investment in real estate.

In 2004, CBRE Investors set new records by closing \$3.5 billion of new acquisitions globally and completing \$1.9 billion in dispositions. In addition, it has launched 14 new funds since 1999. The segment attributes its growth in great part to its ability to harness its affiliates' vast resources—including market intelligence, investment sourcing and sales, financing, leasing and property management—for the benefit of its investor clients and partners.



2004 REVENUES BY CLIENT TYPE



BUILDING LASTING RELATIONSHIPS

In the world of real estate services, CB Richard Ellis stands apart. We have built a company that is as much about people as it is about buildings. For nearly a century in the United States and more than 225 years in Europe, our company has served the needs of real estate owners, investors and occupiers. We have forged relationships, not with properties, but with people.

It's a strategy that works. A strategy that transcends market cycles and geographic boundaries. A strategy that has been proven over time.

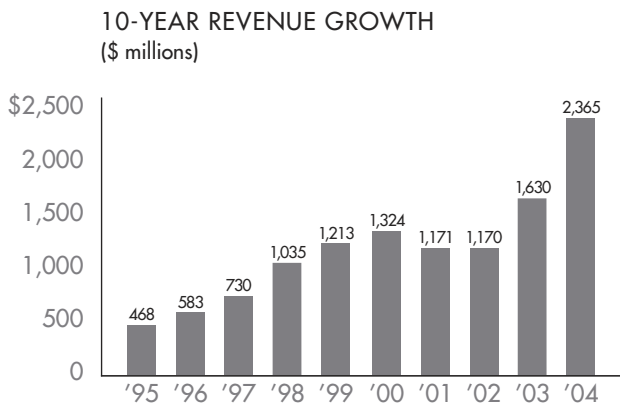
Today, 68 percent of our U.S. transaction management business is with repeat clients—clients who come to us from nearly every industry sector in the world. In fact, our diverse client base includes more than 70 percent of the Fortune 100—successful organizations looking to do business with a peer.

A Name You Can Trust

At CB Richard Ellis we know that trust is priceless. It cannot be bought or won, it must be earned. Each day, we earn our clients' trust by doing what we do best. In return, our clients have rewarded us with more and more of their business:

- Our 50 largest investment sales clients generated \$99.4 million in 2004 revenues—up 141 percent from \$41.3 million four years ago.
- More than 60 percent of our corporate services clients turn to CB Richard Ellis for multiple real estate services.
- The square footage we manage for our 15 largest asset services clients has grown by 64 percent over the past three years.

SERVING CLIENTS EVERY STEP OF THE WAY



CB Richard Ellis is the only real estate services firm with the strength, depth and breadth of services to cover the full gamut of our clients' needs. As a full-service firm, our clients are assured we will be there, no matter where their business takes them.

This diverse service base creates endless synergies and opportunities—especially in the hands of our professionals. Our employees' average tenure is 12 years with the company. Our people know our business and know our company. By taking the time to understand our clients' business, they are able to turn our real estate services into real estate solutions. And while the majority of our revenue continues to come from managing real estate transactions, we are finding that increasingly, completing a transaction is not the end of a client relationship—it's just the beginning.

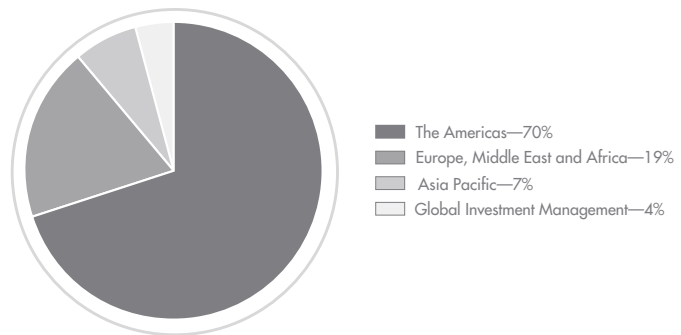
Unparalleled Market Knowledge

In real estate, it's especially true that power derives from knowledge. Good decisions—solid decisions—are informed with insight and real-time information. As a true knowledge-based company, CB Richard Ellis is a world-class research entity. We are the only firm of our kind with a wholly-owned econometric forecasting unit. This information, and the unique insight derived from our unsurpassed transaction volume, supplements the local market data we gather. The result is a storehouse of real estate market information that provides the most complete picture of global real estate market conditions.





2004 REVENUES BY SEGMENT



AROUND THE CORNER AND AROUND THE WORLD

For decades, real estate was a local business. Even as other businesses and industries began to operate in the global marketplace, real estate remained a local business. CB Richard Ellis was the first to recognize that, if our clients were global, we needed to be global as well. It was then that CB Richard Ellis set out to become the real estate services company our clients told us they wanted. We listened carefully and made their vision our vision. Now, that vision is a reality.

CB Richard Ellis has a market-leading presence in all of the world's key business centers and owns the number one position in most major metropolitan marketplaces. Our global reach is real, our information is abundant and our market influence is unsurpassed.

There Is Only One CB Richard Ellis

Travel the world and you will see our name on many buildings, in many cities, across many countries. But there is only one CB Richard Ellis. A client in one market is a client of the entire firm. We are accountable to each other and to each other's clients.

This level of unity, accountability and commitment is deeply ingrained into our culture and is the essence of the CB Richard Ellis brand. We are the leading global brand in the real estate market, widely recognized for exacting quality standards and a collaborative esprit de corps.

LETTER TO SHAREHOLDERS

CB Richard Ellis—2004 Global Business Activity Highlights

- \$127.1 billion in total transaction value
- 41,600 sales and lease transactions
- \$13.3 billion in mortgage loan originations
- 989 million square feet of commercial property and corporate facilities under management*
- \$15.1 billion of investment assets under management

*Including affiliate and partner offices

For CB Richard Ellis, 2004 was a year of continued success. Our performance, by all measures, was exceptional:

- Net income, adjusting for one-time items, of \$117.9 million, or \$1.65 per diluted share, on revenues of \$2.4 billion.
- Organic revenue growth of 21%.
- EBITDA of \$300.3 million, excluding \$54.9 million of one-time expenses attributable to the Insignia acquisition and the IPO, an increase of 64% over 2003.
- EBITDA margins, adjusting for one-time items, reached 12.7% for 2004, a healthy increase from 11.2% in 2003.
- More than \$150 million of mainly high-interest debt was retired, which will result in annual cash interest savings of approximately \$16 million. Another \$26 million of debt was repaid in early 2005, further strengthening our balance sheet.

Key Milestones

In June 2004, we successfully returned to the public equity markets and enjoyed a 77% appreciation in our stock price by year-end. Our performance well out-stripped the Dow (up 4%), S&P 500 (up 7%) and Russell 2000 (up 15%)—an index that we joined on September 30, 2004. In previous years, investors often misunderstood service companies like ours and compared us with REITs or other entities that own property. Today, we are increasingly viewed as a high-growth business services enterprise that is associated with other best-in-class service companies from across the economic landscape, and that continuously reaches for higher performance benchmarks.

Another milestone was the successful integration of Insignia, which we acquired in July 2003. Following the acquisition, we gained the number one market position in two of the world's most important real estate markets—New York and London. In addition, Insignia augmented our talent pool in other key markets and allowed us to achieve annualized cost savings of over \$40 million.

Growth Drivers

CB Richard Ellis has a formidable—and growing—influence on the global real estate marketplace. In the past two years, in terms of revenue, we have more than doubled in size, making us more than twice as large as our nearest competitor. We leased and sold more than \$127 billion of property in 2004, and managed more than 989 million square feet of commercial property and corporate facilities (including affiliate and partner offices).

We draw a distinct competitive advantage from our strong resources on the ground in key local markets, the breadth of our service offerings and the unmatched market intelligence we derive from executing more than 41,000 transactions a year around the globe.

Forces propelling our growth include favorable, long-term trends, such as:

- Increased outsourcing of real estate activities by corporations and other significant occupiers.
- The desire of many organizations to consolidate their vendor lists to one or two best-in-class providers.
- Real estate's increasing allure as a stable, long-term investment option and the corresponding increase in institutional ownership of commercial real estate.

2004 Performance

In 2004, the flow of capital into real estate continued at a brisk pace due to historically low interest rates and increased capital allocations to real estate. Investment flows from offshore sources continued at a strong clip, fueled in part by the weak dollar and the attractive cash yields available. Internationally, investment markets were also robust.

At the same time, the fundamentals supporting our leasing business—job growth, business expansion and space absorption—began to show signs of improvement in the second half of 2004. Significantly, our leasing performance was solid even without the benefit of the rental rate growth expected in coming years.

In addition, our other major businesses continued to perform well. Mortgage brokerage transaction activity topped \$13 billion, a record level. In asset services, we scored multi-market assignments from AMB Property Corporation and Dividend Capital, among others. We won new or expanded corporate services accounts, including Alcan, Kodak, RBC Financial Group and General Motors, and importantly, are now providing multiple services to more than 60% of our corporate services clients. In the global investment management business, total assets under management rose to \$15.1 billion. We also pioneered new investment vehicles to harvest profits, launching a \$400 million residential J-REIT in Tokyo and a first-of-its-kind \$257 million technology property REIT on the New York Stock Exchange.

Corporate governance and ethics are a high priority for CB Richard Ellis. We are very pleased to report that our internal control over financial reporting has met the standards required under the

Sarbanes-Oxley Act of 2002, as our auditors have attested. We are particularly proud of this accomplishment since we have achieved compliance one full year in advance of the deadline that the regulatory agencies mandated for newly public companies. In addition, our focus on ethics, through communication, training, and application of Standards of Business Conduct, helps differentiate us as a company that clients can trust with their real estate needs. We remain keenly focused on the continued pursuit of best-in-class corporate governance and ethics.

Outlook for 2005

As we look forward to 2005, the outlook is encouraging. Business momentum remains strong. Commercial properties continue to change hands at a rapid pace, and real estate has become a preferred asset class among institutional investors. We are optimistic that the emerging recovery in leasing markets will continue in 2005, and could lead to rental rate increases for the first time in more than three years. As the clear market leader, we are well positioned to capitalize on stronger industry trends and the fundamental improvements taking place within the real estate services sector.

The CB Richard Ellis that exists today is the product of the energy, passion and hard work of a multitude of people in our offices across the globe. We have built a powerful brand, extensive platform and advanced intellectual capital base that other firms cannot easily replicate and that we believe gives us an unassailable leadership position across the global marketplace.

As you know, Brett will be assuming CEO duties following the shareholders' meeting in June. The passing of the leadership reins is a natural transition in the evolution of the company—one that we have been planning for many years. We have worked side-by-side for six years now, and since Ray will remain involved as a member of the Board of Directors, the company will continue to benefit from his wisdom and experience as we execute our strategies in the months and years ahead.

We wish to thank our employees for their contributions to our success, and our shareholders for showing confidence in our abilities. We are committed to continuing to strengthen our leadership position in the industry, and further enhancing shareholder value.

Sincerely,



Ray Wirta
Chief Executive Officer



Brett White
President

CB Richard Ellis
We Deliver Results.

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

FORM 10-K

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

For the fiscal year ended December 31, 2004

Commission File Number 000-32983

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)

865 South Figueroa Street, Suite 3400
Los Angeles, California
(Address of principal executive offices)

90017
(Zip Code)

(213) 613-3226
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

N.A.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2004, the aggregate market value of Class A common stock held by non-affiliates of the registrant was \$1.3 billion based upon the last sales price on June 30, 2004 on the New York Stock Exchange of \$19.10 for the Company's Class A Common Stock.

As of February 28, 2005, the number of shares of Class A common stock outstanding was 71,894,925.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy statement for the Registrant's 2005 Annual Meeting of Stockholders to be held June 2, 2005 are incorporated by reference in Part II and Part III of this Form 10-K Report.

Item 1. Business

Overview

CB Richard Ellis Group, Inc. (which may be referred to in this Form 10-K as “we”, “us” and “our”) is the largest global commercial real estate services firm, based on 2004 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2004, excluding affiliate and partner offices, we operated in over 200 offices worldwide with approximately 13,500 employees providing commercial real estate services under the “CB Richard Ellis” brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees. For the year ended December 31, 2004, approximately 89.2% of our revenue related to engagements on a per project or transaction basis and approximately 10.8% of our revenue related to ongoing management fee engagements.

We have a well-balanced, highly diversified base of clients that includes more than 70 of the *Fortune 100* companies. Many of our clients are consolidating their commercial real estate-related expenditures with fewer providers and, as a result, awarding their business to those providers that have a strong presence in important markets and the ability to provide a complete range of services worldwide. As a result of this trend and our ability to deliver comprehensive solutions for our clients’ needs across a wide range of markets, we believe we are well positioned to capture a growing percentage of our clients’ commercial real estate services expenditures.

Our History

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

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

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

CB Richard Ellis Group, Inc., which was initially known as Blum CB Holding Corp. and later as CBRE Holding, Inc., was formed by an affiliate of Blum Capital Partners, L.P. as a Delaware corporation on February 20, 2001 for the purpose of acquiring all of the outstanding stock of CB Richard Ellis Services in a “going private” transaction. This transaction, which involved members of our senior management team and affiliates of Blum Capital Partners and Freeman Spogli & Co., was completed in 2001.

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

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

Our Corporate Structure

We are a holding company and conduct all of our operations through our indirect subsidiaries. Our directly-owned subsidiary CB Richard Ellis Services is also generally a holding company and is the primary obligor or issuer with respect to most of our long-term indebtedness, including our senior secured credit facilities, our 9¾% senior notes due 2010 and our 11¼% senior subordinated notes due 2011.

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

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

Operations in our Global Investment Management segment are conducted through our indirect wholly owned subsidiary CB Richard Ellis Investors, L.L.C. and its global affiliates.

Industry Overview

Our business covers all the various segments that comprise the commercial real estate services industry, which includes leasing, sales, property management, facilities management, consulting, mortgage origination and servicing, valuation and appraisal services and investment management.

We review on a quarterly basis various internally-generated statistics and estimates regarding both office and industrial space within the U.S. commercial real estate services industry, including the total available “stock” of rentable space and the average rent per square foot of space. Our management believes that changes in the addressable commercial rental market represented by the product of available stock and rent per square foot provide a reliable estimate of changes in the overall commercial real estate services industry because nearly all segments within the industry are affected by changes in these two measurements. We estimate that the product of available stock and rent per square foot grew at a compound annual growth rate of approximately 4.3% from 1994 through 2004.

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

Outsourcing

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

- *Transaction management*—oversight of purchase and sale of properties, execution of lease transactions, renewal of leases, expansions and relocation of offices and disposition of surplus space;
- *Facilities management*—oversight of all the operations associated with the functioning of occupied real estate, whether owned and leased, including engineering services, janitorial services, security services, landscaping and capital improvements and directing and monitoring of various subcontractors;
- *Project management*—oversight of the design and construction of interior space (as distinct from building design and construction), including assembling and coordinating contracting teams, and creating and managing budgets;
- *Lease administration*—analysis of all real estate leases of a client to ensure that it is in compliance with all terms and maintenance of reports on all lease data, including critical dates such as renewal options, expansion options and termination options, performance of required services and proper charging or payment for costs;
- *Property Management*—oversight of the daily operation of a single property or portfolio of properties, including tenant service/relations and bidding, awarding and administering subcontracts for maintenance, landscaping, security, parking, capital and tenant improvements to implement the owner’s specific property value enhancement objectives through maximization of cash flow; and
- *Property Accounting*—performance of all of the accounting and financial reporting associated with a property or portfolio, including operating budgets and expenses, rent collection and other accounts receivable, accounts payable, capital and tenant improvements and tenant lease administration.

Consolidation

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

Institutional Ownership of Commercial Real Estate

Institutional owners, such as real estate investment trusts, or REITs, pension funds, foreign institutions and other financial entities, increasingly are acquiring more real estate assets and financing them in the capital markets. Many institutional investors are dedicating a higher percentage of their capital to real estate. Particularly with borrowing costs low, investors believe they can generate higher current-cash yields with real estate investments than with alternative investments. Gradually improving leasing market fundamentals (i.e., higher occupancy, increased rents) also offer these investors the potential for rising future cash-flow. Total U.S. real estate assets held by institutional owners increased to \$479 billion in 2004 from \$223 billion in 1994. REITs were the main drivers of this growth, with a portfolio increase of more than 550% over this time period. Pension fund assets also grew by 53% and foreign institutions augmented their U.S. real estate investments by 71%. We believe it is likely that these owners will outsource management of their portfolios and consolidate their use of real estate services vendors.

Our Regions of Operation and Principal Services

Effective with the fourth quarter of 2004, we reorganized our business segments for financial reporting purposes by separating the Global Investment Management business from our geographic regions. This action was taken in an effort to increase our transparency of reporting in light of the growing significance of our Global Investment Management business. This reorganization has reduced revenues and earnings in the Americas, Europe, Middle East and Africa and Asia Pacific regions, but has had no impact on consolidated results. All periods presented have been restated to conform with the 2004 presentation.

We now report our results of operations through four primary segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, (3) Asia Pacific and (4) Global Investment Management. Within our Americas segment, we organize our services into the following business areas in order to maximize synergies and cross-selling opportunities among our clients: (a) advisory services and (b) outsourcing services.

Information regarding revenue and operating income or loss, attributable to each of our segments, is included in “Segment Operations” within the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and within Note 20 of our Notes to Consolidated Financial Statements, which are incorporated herein by reference. Information concerning the identifiable assets of each of our business segments is also set forth in Note 20 of our Notes to Consolidated Financial Statements, which is incorporated herein by reference.

The Americas

The Americas segment is our largest segment of operations and provides a comprehensive range of services throughout the United States and in the largest metropolitan regions in Canada, Mexico and other selected parts of Latin America. Our Americas segment accounted for 70.2% of our 2004 revenue, 70.9% of our 2003 revenue and 73.6% of our 2002 revenue.

Advisory Services

Corporations, institutions and other users of real estate services have been increasingly consolidating their relationships with fewer service providers that have depth of resources, a full array of services and broad geographic reach. We believe our advisory services businesses have been at the vanguard of this trend, offering occupier/tenant and investor/owner services that meet the full spectrum of marketplace needs, including (1) real estate services, (2) mortgage loan origination and servicing and (3) valuation. Our advisory services business line accounted for 61.3% of our 2004 revenue, 57.5% of our 2003 revenue and 57.5% of our 2002 revenue.

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

- ***Real Estate Services.*** We provide strategic advice and execution to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property. These businesses are built upon strong client relationships that frequently lead to recurring revenue opportunities over many years. Our real estate services professionals are particularly adept at aligning real estate strategies with client business objectives, serving as an advisor as well as transaction executor. During 2004, we advised on nearly 24,000 lease transactions involving aggregate rents of approximately \$37.4 billion and more than 5,800 real estate sales transactions with an aggregate value of approximately \$42.3 billion. We believe we are a market leader for the provision of sales and leasing real estate services in many of the top U.S. metropolitan statistical areas (as defined by the U.S. Census Bureau), including New York, Philadelphia, Washington, D.C., Los Angeles, Atlanta, Chicago, Boston and Dallas.

Our real estate services professionals are compensated primarily through commission-based programs, which are payable upon completion of the assignment. Therefore, as compensation is our largest expense, this flexible cost structure permits us to mitigate the negative effect on our operating margins during difficult market conditions. Due to the low barriers to entry and significant competition for

quality employees, we strive to retain top professionals through an attractive compensation program tied to productivity. We also invest in greater support resources than available at most other firms, such as training, market information, technology and marketing, and we foster an entrepreneurial culture that emphasizes client service and rewards performance.

We further strengthen our relationships with our real estate services clients by offering proprietary research to clients through our Torto Wheaton Research unit, a leading provider of commercial real estate market information, forecasting and consulting services. Torto Wheaton Research provides data and analysis to its clients in various formats, including TWR Outlook reports for office, industrial, hotel, retail and multi-housing sectors covering 54 U.S. metropolitan areas and the TWR Select office and industrial database coverage of over 210,000 commercial properties.

- ***Mortgage Loan Origination and Servicing.*** Our wholly owned subsidiary, L.J. Melody & Company, originates and services commercial mortgage loans primarily through relationships established with investment banking firms, national banks, credit companies, insurance companies, pension funds and government agencies. During 2004, L.J. Melody completed \$13.3 billion in debt and equity transactions, representing a 21.0% increase in total volume from 2003. Approximately \$1.7 billion of loans were originated for federal government sponsored entities, most of which were financed through a revolving credit line dedicated exclusively for this purpose. Loans financed through the revolving credit line generally occur without principal risk because L.J. Melody obtains a legally binding purchase commitment from the government sponsored entity before it actually originates the loan. GEMSA Loan Services, a joint venture between L.J. Melody and GE Capital Real Estate, services approximately \$60.0 billion of mortgage loans, \$24.0 billion of which relate to the servicing rights of L. J. Melody.
- ***Valuation.*** We provide valuation services that include market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions. Our valuation business has developed proprietary technology for preparing and delivering valuation reports to its clients, which we believe provides it with a competitive advantage over its rivals. We believe that our valuation business is one of the largest in the industry. During 2004, we completed over 14,000 valuation, appraisal and advisory assignments.

Outsourcing Services

Outsourcing is a long-term trend in commercial real estate, with corporations, institutions and others seeking to achieve improved efficiency, better execution and lower costs by relying on the expertise of third-party real estate specialists. Our outsourcing services business includes two business lines that seek to capitalize on this trend: (1) asset services and (2) corporate services. Although our management agreements with our outsourcing clients generally may be terminated on relatively short notice ranging between 30 days to a year, we have developed long-term relationships with many of these clients and we continue to work closely with them to implement their specific goals and objectives and to preserve and expand upon these relationships. As of December 31, 2004, we managed approximately 447.0 million square feet of commercial space for property owners and occupiers, which we believe represents one of the largest portfolios in the Americas. Our outsourcing services business line accounted for 8.9% of our 2004 revenue, 13.4% of our 2003 revenue and 16.1% of our 2002 revenue.

- ***Asset Services.*** We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors. We believe our contractual relationships with these clients put us in an advantageous position to provide other services for them, including refinancing, disposition and appraisal.
- ***Corporate Services.*** We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios. Corporate facilities under management in the Americas region include headquarters buildings,

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

Europe, Middle East and Africa (EMEA)

Our EMEA segment has offices in 29 countries, with its largest operations located in the United Kingdom, France, Spain, the Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services similar to our Americas segment. Our EMEA segment accounted for 19.4% of our 2004 revenue, 18.3% of our 2003 revenue and 14.6% of our 2002 revenue.

We are one of the leading commercial real estate services companies in the United Kingdom. We hold the leading market position in London in terms of 2004 leased square footage and investment market activity and provide a broad range of commercial property real estate services to investment, commercial and corporate clients located in London. We also have nine regional offices in Aberdeen, Birmingham, Bristol, Jersey, Leeds, Liverpool, Manchester, Edinburgh and Glasgow. In France, we believe we are a market leader in Paris and we provide a complete range of services to the commercial property sector, as well as some services to the residential property market. In Spain, we provide full-service coverage through our offices in Madrid, Barcelona, Valencia, Malaga, Marbella and Palma de Mallorca. Our business in the Netherlands is based in Amsterdam, while our German operations are located in Frankfurt, Munich, Berlin and Hamburg. Our operations in these countries generally provide a full range of services to the commercial property sector. Additionally, we provide some residential property services in France and Spain.

We also have affiliated offices that provide commercial real estate services under our brand name in the Middle East and Africa, including the countries of Botswana, Israel, Kenya, South Africa, Uganda and Zimbabwe. Our agreements with these independent offices include licenses to use the "CB Richard Ellis" name in the relevant territory in return for payments to us of annual royalty fees. In addition, these agreements also include business cross-referral arrangements between us and the affiliates. We do not have any ownership interests with respect to these affiliated offices.

Asia Pacific

Our Asia Pacific segment has offices in 12 countries. We believe that we are one of only a few companies that can provide a full range of real estate services to large corporations throughout the region, similar to the broad range of services provided by our Americas and EMEA segments. Our principal operations in Asia are located in China, Hong Kong, Singapore, South Korea and Japan. In addition, we have agreements with affiliated offices in India, the Philippines, Thailand, Indonesia and Vietnam that generate royalty fees and support cross-referral arrangements on terms similar to those with our affiliated offices in our EMEA segment, as described above. The Pacific region includes Australia and New Zealand, with principal offices located in Brisbane, Melbourne, Sydney, Perth and Auckland. Our Asia Pacific segment accounted for 6.4% of our 2004 revenue, 6.6% of our 2003 revenue and 6.9% of our 2002 revenue.

Global Investment Management

Our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C. and its investment management affiliates, provides investment management services to client/partners that include pension plans, investment funds and other organizations seeking to generate returns and diversification through investment in real estate. It sponsors funds and investment programs that span the risk/return spectrum across three continents. In higher yield strategies, CBRE Investors and its investment teams "co-invest" with its limited partners. Our Global Investment Management segment accounted for 4.0% of our 2004 revenue, 4.2% of our 2003 revenue and 4.9% of our 2002 revenue.

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

CBRE Investors closed over \$3.5 billion and \$2.1 billion of new acquisitions in 2004 and 2003, respectively. It liquidated \$1.9 billion of investments in 2004. Assets under management have increased from \$3.7 billion in 1997 to \$15.1 billion in 2004, representing a 22.3% compound annual growth rate.

Our Competitive Position

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

- **Global Brand and Market Leading Positions.** For nearly a century, we and our predecessors have built the CB Richard Ellis brand into the largest commercial real estate services provider in the world, based on 2004 revenue, and one of only three commercial real estate services companies with a global brand. As a result of our global brand recognition and geographic reach, large corporations, institutional owners and users of real estate recognize us as a leading provider of world-class, comprehensive real estate services. Operating under the global CB Richard Ellis brand name, we are a leader in many of the local markets in which we operate, including New York, Los Angeles, Chicago, London and Paris.
- **Full Service Capabilities.** We provide a full range of commercial real estate services to meet the needs of our clients, and we believe this suite of services represents a broader range globally than those of many of our competitors. When combined with our extensive global reach and localized market knowledge, this full range of real estate services enables us to provide world-class service to our multi-regional and multi-national clients, as well as to maximize our revenue per client.
- **Strong Client Relationships and Client-tailored Service.** We have forged long-term relationships with many of our clients. Our clients include more than 70 of the *Fortune 100* companies. In order to better satisfy the needs of our largest clients and to capture cross-selling opportunities, we have organized fully-integrated client coverage teams comprised of senior management, a global relationship manager and regional and product specialists. We believe that this client-tailored approach contributed significantly to our 24.5% compound annual growth rate in revenues from the 50 largest clients of our U.S. investment sales group within our real estate services line of business during the period from 2000 to 2004.
- **Attractive Business Model.** Our business model features a diversified client base, recurring revenue streams, a variable cost structure, low capital requirements and strong cash flow generation.
- **Diversified Client Base.** Our global operations, multiple service lines and extensive client relationships provide us with a diversified revenue base. For 2004, we estimate that corporations accounted for approximately 27% of our global revenue, insurance companies and banks accounted for approximately 19% of our revenue, pension funds and their advisors accounted for approximately 9% of our revenue, individuals and partnerships accounted for approximately 16% of our revenue, REITs accounted for approximately 5% of our revenue and other types of clients accounted for the remainder of our revenue.

- **Recurring Revenue Streams.** Our years of strong local market presence have allowed us to develop significant repeat client relationships, which along with the turnover of leases and properties for which we have previously acted as transaction manager, we estimate accounted for approximately 64% of our 2004 revenue. This includes referrals associated with our contractual, annual fee-for-services businesses, which generally involve facilities management, property management, mortgage loan servicing provided by L.J. Melody & Company and asset management provided by CBRE Investors. Our contractual, fee-for-service business represented 10.8% of our 2004 revenue.
- **Variable Cost Structure.** Compensation is our largest expense and our sales and leasing professionals are generally paid on a commission and bonus basis, which correlates with our revenue performance. This flexible cost structure mitigates the negative effect on our operating margins during difficult market conditions. However, our cost structure also includes significant other operating expenses that may not correlate to our revenue performance, including office lease and information technology maintenance and other support services expenses along with insurance premiums.
- **Low Capital Requirements.** Our business model is structured to provide value-added services with low capital intensity. During 2004, our net capital expenditures were 1.7% of our revenue.
- **Strong Cash Flow Generation.** Our strong brand name, full-service capabilities, and global presence enable us to generate significant revenues which, when combined with our flexible cost structure and low capital requirements, have allowed us historically to generate significant cash flow in a variety of economic conditions.
- **Strong Senior Management Team and Workforce.** Our most important asset is our people. We have recruited a talented and motivated work force of approximately 13,500 employees worldwide who are supported by a strong and deep senior management team consisting of a number of highly-respected executives, most of whom have over 20 years of broad experience in the real estate industry. In addition, we use equity compensation to align the interests of our senior management team with the interests of our stockholders.

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

- **Significant Leverage.** We are highly leveraged and have significant debt service obligations. For the year ended December 31, 2004, our interest expense was \$65.4 million. In addition, the instruments governing our indebtedness impose significant operating and financial restrictions on the conduct of our business.
- **Geographic Concentration.** During 2004, approximately 20.9% of our revenue was generated from transactions originating in California and approximately 8.1% was generated from transactions originating in the greater New York metropolitan area. In addition, a significant portion of our European operations is concentrated in London and Paris. As a result, future adverse economic effects in these regions may affect us more than our competitors.
- **Exposure to Risks of International Operations.** We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2004, we generated approximately 31.6% of our revenue from operations outside the United States. Because a significant portion of our revenues are derived from operations outside the United States, we are exposed to adverse changes in exchange rates and social, political and economic risks of doing business in foreign countries.
- **Smaller Presence in Some Markets than our Local Competitors.** Although we are the largest commercial real estate services firm in the world in terms of 2004 revenue, our relative competitive position varies significantly across service categories and geographic areas. Depending on the service, we face competition from other real estate service providers, institutional lenders, insurance

companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis.

Our Growth Strategy

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

- ***Increase Revenue from Large Clients.*** We plan to capitalize on our client management strategy for our large clients, which is designed to provide them with a full range of services globally while maximizing our revenue per client. We deliver these services through relationship management teams that are charged with thoroughly understanding our customers' business and real estate strategies and matching our services to the customers' requirements. The global relationship manager is a highly seasoned professional who is focused on maximizing revenue per client and compensated with a salary and a performance-based bonus and is supported by salaried professionals with specialized expertise, such as marketing, financial analysis and construction. The team leader also taps into our field-level transaction professionals, as necessary, for execution of client strategies. We believe this approach to client management will lead to stronger client relationships and enable us to maximize cross-selling opportunities and capture a larger share of our clients' commercial real estate services expenditures. For example:
 - we generated repeat business in 2004 from approximately 68% of our U.S. real estate sales and leasing clients;
 - more than 60% of our corporate services clients today purchase more than one service and, in many cases, more than two;
 - the square footage we manage for our 15 largest asset services clients has grown by 64% in three years; and
 - the 50 largest clients of the investment sales group within our real estate services line of business generated \$99.4 million in revenues in 2004—up 141% from \$41.3 million for the top 50 clients four years earlier.
- ***Capitalize on Cross-selling Opportunities.*** Because we believe cross-selling represents a large growth opportunity within the commercial real estate services industry, we are committed to emphasizing this opportunity across all of our clients, services and regions. We have dedicated substantial resources and implemented several management initiatives to better enable our workforce to capitalize on these opportunities among our various lines of business, including our "CBRE University" outside Chicago that provides intensive training for sales and management professionals, a customer relationship management database and sales management principles and incentives designed to improve individual productivity. We believe the combination of these initiatives will enable us to further penetrate local markets and better capitalize on our worldwide platform.
- ***Continue to Grow our Investment Management Business.*** Our growing investment management business provides us with an attractive revenue source through fees on assets under management and gains on the sales of assets. We also expect to achieve strong growth in this business by continuing to harness the vast resources of the entire CB Richard Ellis organization for the benefit of our investment

management clients. CBRE Investors' independent structure creates an alignment of interests with its investors, while permitting its clients to use the broad range of services provided by our other business lines. As a result, we historically have received significant revenue from the provision of services on an arm's length basis to these clients, and we believe this will continue in the future.

- ***Expansion through Fill-In Acquisitions.*** We believe that it is beneficial to us to grow our business through strategic acquisitions. There are a number of quality smaller firms throughout the world that may be suitable acquisition candidates for us. We expect that each of these acquisitions would generally be less than \$100 million in total consideration and would serve to add to our existing geographic and/or line of business platforms in our markets.
- ***Focus on Improved Operating Efficiency.*** We have been focused for several years on efficiency improvements and contribution enhancements from our internal support services and functions including travel, advertising and entertainment as well as headcount. We believe our efforts have contributed strongly to lower operating costs, higher margins and improved performance. We remain committed to the continued realization of operational efficiencies and cost savings associated with these efforts in order to maximize our operating margins and cash flow.

Competition

We compete across a variety of business disciplines within the commercial real estate services industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage banking. Each of the business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2004 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other commercial real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours, including Cushman & Wakefield, Grubb & Ellis, Jones Lang LaSalle and Trammell Crow.

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

Seasonality

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

Employees

At December 31, 2004, we had approximately 13,500 employees worldwide. At December 31, 2004, 228 of our employees were subject to collective bargaining agreements, the substantial majority of whom are employees in our asset services business in the New York/New Jersey area. We believe that relations with our employees are satisfactory.

Intellectual Property

We hold various trademarks and trade names worldwide, which include the “CB Richard Ellis” name. Although we believe our intellectual property plays a role in maintaining our competitive position in a number of the markets that we serve, we do not believe we would be materially, adversely affected by expiration or termination of our trademarks or trade names or the loss of any of our other intellectual property rights other than the “CB Richard Ellis” name and the “L.J. Melody” name. With respect to the CB Richard Ellis and L.J. Melody names, we have processed and continuously maintain trademark registrations for these service marks in the United States and the CB Richard Ellis related marks are in registration or in process in most foreign jurisdictions where we conduct significant business. We obtained our most recent U.S. trademark registrations for the CB Richard Ellis related marks in 2005, and these registrations would expire in 2015 if we failed to renew them. We obtained our most recent U.S. trademark registration for the L.J. Melody name in 1997, and this registration would expire in 2007 if we failed to renew it.

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

Environmental Matters

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

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

Factors Affecting Our Future Performance

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other public statements we make.

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

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

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

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

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

- our ability to attract and retain creditworthy tenants;
- the magnitude of defaults by tenants under their respective leases;
- our ability to control operating expenses;
- governmental regulations, local rent control or stabilization ordinances which are in, or may be put into, effect;
- various uninsurable risks;
- financial conditions prevailing generally and in the areas in which these properties are located;
- the nature and extent of competitive properties; and
- the real estate market generally.

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

We compete across a variety of business disciplines within the commercial real estate industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage brokerage. In general, with respect to each of our business disciplines, we cannot give assurance that we will be able to continue to compete effectively or maintain our current fee arrangements or margin levels or that we will not encounter increased competition. Each of the

business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2004 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than us, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours.

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

We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2004, we generated approximately 31.6% of our revenue from operations outside the United States. Circumstances and developments related to international operations that could negatively affect our business, financial condition or results of operations include, but are not limited to, the following factors:

- difficulties and costs of staffing and managing international operations;
- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- unexpected changes in regulatory requirements;
- potentially adverse tax consequences;
- the responsibility of complying with multiple and potentially conflicting laws;
- the impact of regional or country-specific business cycles and economic instability;
- the geographic, time zone, language and cultural differences among personnel in different areas of the world;
- greater difficulty in collecting accounts receivable in some geographic regions such as Asia, where many countries have underdeveloped insolvency laws and clients are often slow to pay, and in some European countries, where clients also tend to delay payments;
- political instability; and
- foreign ownership restrictions with respect to operations in countries such as China.

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

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

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

Our revenue from non-U.S. operations is denominated primarily in the local currency where the associated revenue was earned. During 2004, approximately 31.6% of our business was transacted in currencies of foreign countries, the majority of which included the Euro, the British Pound Sterling, the Hong Kong dollar, the

Singapore dollar and the Australian dollar. Thus, we may experience fluctuations in revenues and earnings because of corresponding fluctuations in foreign currency exchange rates. For example, during 2004, the U.S. dollar dropped in value against many of the currencies in which we conduct business.

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

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

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

A significant component of our growth has occurred through acquisitions, including our acquisition of Insignia on July 23, 2003. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. However, future acquisitions may not be available at advantageous prices or upon favorable terms and conditions. In addition, acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. Future acquisitions and any necessary related financings also may involve significant transaction-related expenses. For example, through December 31, 2004, we have incurred approximately \$200.9 million of transaction-related expenses in connection with our acquisition of Insignia in 2003.

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

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

If we are unable to fully integrate the accounting and other systems of the businesses we acquire, we may not be able to effectively manage them. Moreover, the integration process itself may be disruptive to our business as it requires coordination of geographically diverse organizations and implementation of new accounting and information technology systems.

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

During 2004 and 2003, approximately 20.9% and 23.8%, respectively, of revenue was generated from transactions originating in California and approximately 8.1% and 6.9%, respectively, was generated from transactions originating in the greater New York metropolitan area. As a result of the geographic concentrations

in California and New York, any future economic downturn in the California or New York commercial real estate markets and in the local economies in San Diego, Los Angeles, Orange County or the greater New York metropolitan area could harm our results of operations.

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

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

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

We are highly leveraged and have significant debt service obligations. For 2004, our interest expense was \$65.4 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

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

- we could be required to use a substantial portion of our cash flow from operations to pay principal and interest on our debt;
- our level of debt may restrict us from raising additional financing on satisfactory terms to fund working capital, strategic acquisitions, investments, joint ventures and other general corporate requirements;
- our interest expense could increase if interest rates increase because, the loans under our amended and restated credit agreement governing our senior secured credit facilities bear interest at floating rates;
- our substantial leverage could increase our vulnerability to general economic downturns and adverse competitive and industry conditions, placing us at a disadvantage compared to those of our competitors that are less leveraged;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry;
- our failure to comply with the financial and other restrictive covenants in the documents governing our indebtedness, which, among others, require us to maintain specified financial ratios and limit our ability to incur additional debt and sell assets, could result in an event of default that, if not cured or waived, could harm our business or prospects; and
- from time to time, Moody's Investors Service and Standard and Poor's Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% senior subordinated notes. These ratings may impact our ability to borrow under any new agreements in the future, as well as the interest rates and other terms of any such future borrowings and could also cause a decline in the market price of our common stock or changes in the interest rate for the term loan under our new amended and restated credit agreement.

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

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

Our amended and restated credit agreement governing our senior secured credit facilities and the indentures relating to our 9¾% senior notes due 2010 and our 11¼% senior subordinated notes due 2011 permit us, subject to specified conditions, to incur a significant amount of additional indebtedness, including up to \$150.0 million of additional indebtedness under our revolving credit facility. Our amended and restated credit agreement also permits us to borrow up to \$25.0 million of additional term loans under our term loan facility, subject to the satisfaction of customary conditions. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

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

The indentures governing our 9¾% senior notes due 2010 and our 11¼% senior subordinated notes due 2011 impose, and the terms of any future debt may impose, operating and other restrictions on us and many of our subsidiaries. These restrictions will affect, and in many respects will limit or prohibit, our ability and our restricted subsidiaries' abilities to:

- incur or guarantee additional indebtedness;
- pay dividends or make distributions on capital stock or redeem or repurchase capital stock;
- repurchase equity interests;
- make investments;
- create restrictions on the payment of dividends or other amounts to us;
- sell stock of subsidiaries;
- transfer or sell assets;
- create liens;
- enter into transactions with affiliates;
- enter into sale/leaseback transactions; and
- enter into mergers or consolidations.

The amended and restated credit agreement also requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

The restrictions contained in our debt instruments could:

- limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and
- adversely affect our ability to finance ongoing operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these restrictive covenants or the inability to comply with the required financial ratios could result in a default under our debt instruments. If any such default occurs, the lenders under the senior

secured credit facilities and the holders of our 9¾% senior notes due 2010 and our 11¼% senior subordinated notes due 2011, pursuant to the respective indentures, may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. The lenders under our senior secured credit facilities also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under the senior secured credit facilities will have the right to proceed against the collateral granted to them to secure the debt, which collateral is described in the immediately following risk factor. If the debt under the senior secured credit facilities, our 9¾% senior notes due 2010 or our 11¼% senior subordinated notes due 2011 were to be accelerated, we cannot give assurance that this collateral would be sufficient to repay our debt.

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

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

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

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of December 31, 2004, we had committed \$24.3 million to fund future co-investments. We expect that approximately \$23.5 million of these commitments will be funded during 2005. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets, and the failure to provide these contributions could have adverse consequences to our interests in these investments. These adverse consequences could include damage to our reputation with our co-investment partners and clients, as well as the necessity of obtaining alternative funding from other sources that may be on disadvantageous terms for us and the other co-investors. Providing co-investment financing is also a very important part of CBRE Investor's investment management business, which would suffer if we were unable to make these investments. Although our debt instruments contain restrictions that limit our ability to provide capital to the entities holding direct or indirect interests in co-investments, we may provide this capital in many instances.

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

- losses from investments;
- difficulties associated with international co-investments described in “—Our international operations subject us to social, political and economic risks of doing business in foreign countries” and “—Our revenue and earnings may be adversely affected by foreign currency fluctuations;” and
- potential lack of control over the disposition of any co-investments and the timing of the recognition of gains, losses or potential incentive participation fees.

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

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

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

Our continued success is highly dependent upon the efforts of our executive officers and other key employees, including Ray Wirta, our Chief Executive Officer; Brett White, our President; and Kenneth J. Kay, our Chief Financial Officer. In addition, Messrs. Wirta, White, Kay currently are not parties to employment agreements with us. On February 22, 2005, Mr. Wirta announced his intention to resign as chief executive officer after our Annual Meeting of stockholders on June 2, 2005, at which time Mr. White will assume the additional title of chief executive officer. Mr. Wirta has agreed to serve on the board of directors after that date as vice chairman, and will remain our employee during a transition period. If any of our key employees leave and we are unable to quickly hire and integrate a qualified replacement, our business, financial condition and results of operations may suffer. In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified personnel in all areas of our business, including brokerage and property management personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

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

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

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

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

In addition, in our property management business, we hire and supervise third-party contractors to provide construction and engineering services for our managed properties. While our role is limited to that of a

supervisor, we may be subject to claims for construction defects or other similar actions. Adverse outcomes of property management litigation could negatively impact our business, financial condition or results of operations.

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

Immediately prior to the completion of our acquisition of Insignia on July 23, 2003, Insignia completed the sale of substantially all of its real estate investment assets to Island Fund. Under the terms of the purchase agreement, we agreed to retain some contingent liabilities related to these real estate investment assets, including, as of December 31, 2004, approximately \$5.2 million of letters of credit support and a guarantee of an approximately \$1.3 million repayment obligation. Island Fund is obligated to reimburse us for only 50% of any future draws against these letters of credit or the repayment guarantee, and there can be no assurance that Island Fund will be able to satisfy any future requests for reimbursement.

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

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

Our stock price is subject to volatility.

Our stock price is affected by a number of factors, including quarterly variations in our results and those of our competitors; the competitive landscape; estimates and projections by the investment community; the arrival or departure of key personnel; the introduction of new services by us or our competitors; and acquisitions, strategic alliances or joint ventures involving us or our competitors. In addition, the stock market, in general, has historically experienced significant price and volume fluctuations. Any of these factors may cause declines in the market price of our common stock. When the market price of a company's common stock drops significantly, stockholders sometimes institute securities class action lawsuits against the company. A securities class action lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

Availability of this Report.

Our internet address is www.cbre.com. On our Investor Relations page on this web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our Investor Relations web page are available to be viewed on this page free of charge. Information contained on our website is not part of this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission. We assume no obligation to update or revise any forward-looking statements in the Annual Report on Form 10-K, whether as a result of new information, future events or otherwise, unless we are required to do so by law. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, CB Richard Ellis, Inc., 200 Park Avenue, Floors 16-19, New York, New York 10166.

Forward-Looking Statements

This Annual Report on Form 10-K 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,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will” and similar terms and phrases are used in this Annual Report on Form 10-K 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;
- competition;
- changes in social, political and economic conditions in the foreign countries in which we operate;
- foreign currency fluctuations;
- future acquisitions;
- integration issues relating to acquired businesses;
- an economic downturn in the California and New York real estate markets;
- significant variability in our results of operations among quarters;
- our substantial leverage and debt service obligations;
- our ability to incur additional indebtedness;
- our ability to generate a sufficient amount of cash to 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;
- changes in the key components of revenue growth for large commercial real estate services companies;
- 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;
- our ability to achieve annual cash interest savings;
- the effect of implementation of new tax and accounting rules and standards; and
- the other factors described in this Annual Report on Form 10-K under the heading “Business-Factors Affecting Our Future Performance” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies.”

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 period filings with the Securities and Exchange Commission.

Item 2. Properties

We occupied the following offices as of December 31, 2004:

<u>Location</u>	<u>Sales Offices</u>	<u>Corporate Offices</u>	<u>Total</u>
Americas	133	2	135
Europe, Middle East and Africa (EMEA)	51	1	52
Asia Pacific	<u>27</u>	<u>1</u>	<u>28</u>
Total	<u>211</u>	<u>4</u>	<u>215</u>

As of December 31, 2004, our Global Investment Management segment occupied 16 offices, including eleven in the Americas (all in the United States), four in EMEA and one in Asia Pacific. Since some of our offices contain both employees of our Global Investment Management segment and our other segments, offices of our Global Investment Management segment have not been included above, as to do so could be duplicative.

In general, these leased offices are fully utilized. The most significant terms of the leasing arrangements for our offices are the term of the lease and the rent. Our leases have terms varying in duration. The rent payable under our office leases varies significantly from location to location as a result of differences in prevailing commercial real estate rates in different geographic locations. Our management believes that no single office lease is material to our business, results of operations or financial condition. In addition, we believe there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our profits in those markets when we enter into new leases. We do not own any offices, which is consistent with our strategy to lease instead of own.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2004.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price Information

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

<u>Fiscal Year 2004</u>	<u>Price Range</u>	
	<u>High</u>	<u>Low</u>
Quarter ending June 30, 2004 (commencing June 10, 2004)	\$19.10	\$18.20
Quarter ending September 30, 2004	\$23.64	\$18.78
Quarter ending December 31, 2004	\$33.94	\$23.51

The closing share price for our Class A common stock on December 31, 2004, as reported by the New York Stock Exchange, was \$33.55. As of December 31, 2004, there were 78 stockholders of record of our Class A common stock.

Dividend Policy

We have not declared or paid any cash dividends on any class of our common stock since our inception on February 20, 2001, and we do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance future growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors that the board of directors deems relevant. In addition, our ability to declare and pay cash dividends is restricted by the amended and restated credit agreement governing our senior secured credit facilities and the indentures relating to our 9¾% senior notes due 2010 and our 11¼% senior subordinated notes due 2011.

Recent Sales of Unregistered Securities

Except as otherwise indicated, all information in this Item 5 of Part II gives effect to the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock on May 4, 2004, which split was effected by a stock dividend, and the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock on June 7, 2004. In the three years prior to December 31, 2004, we issued the following unregistered securities in private placements conducted pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving public offerings:

(1) We have, in recruiting various key employees, offered such employees the right to purchase shares of our Class A common stock, in each case at \$5.77 per share:

<u>Number of Shares</u>	<u>Date of Purchase</u>	<u>Consideration</u>
6,928	January 13, 2002	\$ 20,000 cash \$ 20,000 note
20,785	February 21, 2002	\$ 60,000 cash \$ 60,000 note
34,642	May 31, 2002	\$100,000 cash \$100,000 note
27,713	January 15, 2003	\$ 80,000 cash \$ 80,000 note
69,284	January 15, 2003	\$400,000 cash
8,661	January 27, 2003	\$ 50,000 cash
8,661	January 27, 2003	\$ 50,000 cash
69,284	October 2, 2003	\$400,000 cash

Such stock was issued pursuant to our 2001 Stock Incentive Plan in transactions exempt from registration under Rule 701 promulgated pursuant to the Securities Act of 1933, as amended.

(2) On May 22, 2003, CBRE Escrow, Inc., an indirect wholly owned subsidiary of ours, issued and sold to Credit Suisse First Boston LLC, Credit Lyonnais Securities (USA) Inc. and HSBC Securities (USA) Inc. \$200.0 million in aggregate principal amount of its 9¾% senior notes due May 15, 2010 at a cash price equal to 100% of the aggregate principal amount of such notes. In connection with the merger of CBRE Escrow with and into our wholly owned subsidiary CB Richard Ellis Services, Inc. on July 23, 2003, CB Richard Ellis Services assumed the obligations of CBRE Escrow with respect to the 9¾% senior notes due May 15, 2010 and we guaranteed such securities on a senior basis. On January 7, 2004, CB Richard Ellis Services, Inc., us and the other guarantors of such unregistered securities exchanged such securities for 9¾% senior notes due May 15, 2010 and related guarantees that had been registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-4 (No. 333-109841) that had been declared effective by the Securities and Exchange Commission on December 5, 2003.

(3) On July 23, 2003, we issued and sold the following unregistered securities:

- an aggregate of 18,421,619 shares of our Class B common stock to Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG and Frederic V. Malek for a cash price of \$5.77 per share; and
- an aggregate of 2,363,597 shares of our Class A common stock to DLJ Investment Partners, L.P., DLJ Investment Partners II, L.P., DLJIP II Holdings, L.P. and California Public Employees' Retirement System for a cash price of \$5.77 per share.

(4) Prior to June 10, 2004, we issued an aggregate of 70,372 shares of our Class A common stock in connection with distributions related to stock fund units under the deferred compensation plan of our wholly owned subsidiary, CB Richard Ellis Services, Inc. The plan participants receiving such shares previously had made aggregate deferrals of \$335,296 under the plan with respect to such stock fund units. The issuances of such shares in connection with distributions under such plan were pursuant to Rule 701 promulgated by the Securities and Exchange Commission under Section 3(b) of the Securities Act of 1933, as amended, with respect to transactions pursuant to compensation benefit plans and contracts relating to compensation.

(5) Prior to June 10, 2004, current and former employees of ours had exercised options to acquire an aggregate of 17,321 shares of our Class A common stock for \$5.77 per share. The issuance of such shares in connection with the exercise of such options was pursuant to our 2001 Stock Incentive Plan and exempt from registration under Rule 701 promulgated pursuant to the Securities Act of 1933, as amended.

Equity Compensation Plan Information

The information under the heading "Equity Compensation Plan Information" in the definitive proxy statement for the Company's 2005 Annual Meeting of Stockholders to be filed by the Company with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, within 120 days after the end of the Company's fiscal year is incorporated herein by reference.

Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial information for each of the five years in the period ended December 31, 2004. On July 20, 2001, we acquired CB Richard Ellis Services, Inc. Except as otherwise indicated below, the selected historical financial data for the dates and periods ended prior to July 20, 2001 are derived from the consolidated financial statements of CB Richard Ellis Services, our “predecessor company.” The statement of operations data, the statement of cash flows data and the other data for the years ended December 31, 2004, 2003 and 2002 and the balance sheet data as of December 31, 2004 and 2003 were derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The statement of operations data, the statement of cash flows data and the other data for the period from February 20 (inception) to December 31, 2001 and for the period from January 1 to July 20, 2001 and for the year ended December 31, 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 were derived from our or our predecessor’s audited consolidated financial statements that are not included in this Form 10-K.

The selected financial data presented below are not necessarily indicative of results of future operations and should be read in conjunction with our consolidated financial statements and the information included under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K.

SELECTED CONSOLIDATING FINANCIAL INFORMATION (Dollars in thousands, except share data)

	CB Richard Ellis Group, Inc.				Predecessor Company	
	Year ended December 31,			Period From February 20 (inception) to December 31, 2001 (2)	Period From January 1 to July 20, 2001	Year Ended December 31, 2000
	2004	2003 (1)	2002			
STATEMENTS OF OPERATIONS DATA:						
Revenue	\$ 2,365,096	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934	\$ 1,323,604
Operating income (loss)	171,008	25,830	96,736	61,178	(17,048)	100,780
Interest income	4,264	3,560	3,272	2,427	1,567	2,554
Interest expense	65,418	71,256	60,501	29,717	20,303	41,700
Loss on extinguishment of debt	21,075	13,479	—	—	—	—
Net income (loss)	64,725	(34,704)	18,727	17,426	(34,020)	33,388
EPS (3)(4):						
Basic	0.95	(0.68)	0.45	0.80	(1.60)	1.60
Diluted	0.91	(0.68)	0.44	0.79	(1.60)	1.58
Weighted average shares (4)(5):						
Basic	67,775,406	50,918,572	41,640,576	21,741,351	21,306,584	20,931,111
Diluted	71,345,073	50,918,572	42,185,989	21,920,915	21,306,584	21,097,240
STATEMENTS OF CASH FLOWS DATA:						
Net cash provided by (used in)						
operating activities	\$ 182,175	\$ 77,279	\$ 69,571	\$ 91,334	\$ (120,230)	\$ 80,859
Net cash used in investing						
activities	(23,319)	(298,133)	(28,819)	(261,393)	(12,139)	(32,469)
Net cash (used in) provided by						
financing activities	(67,366)	303,664	(17,838)	213,831	126,230	(53,523)
OTHER DATA:						
EBITDA (6)	\$ 245,340	\$ 132,817	\$ 130,676	\$ 74,930	\$ 11,482	\$ 150,484
Balance Sheet Data						
	CB Richard Ellis Group, Inc.				Predecessor Company	
	As of December 31,				As of December 31, 2000	
	2004	2003	2002	2001		
Cash and cash equivalents	\$ 256,896	\$ 163,881	\$ 79,701	\$ 57,450	\$ 20,854	
Total assets	2,271,636	2,213,481	1,324,876	1,354,512	963,105	
Long-term debt, including current portion	612,838	802,705	509,715	517,423	289,447	
Total liabilities	1,705,763	1,873,896	1,067,920	1,097,693	724,018	
Total stockholders’ equity	559,948	332,929	251,341	252,523	235,339	

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

- (1) The results for the year ended December 31, 2003 include the operations of Insignia Financial Group, Inc. from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (2) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (3) EPS represents earnings (loss) per share. See Earnings (Loss) Per Share information in Note 15 of our Notes to Consolidated Financial Statements.
- (4) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock effected on June 7, 2004 because our predecessor was a different legal entity.
- (5) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (6) EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

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

EBITDA is calculated as follows (dollars in thousands):

	CB Richard Ellis Group, Inc.				Predecessor Company	
	Year ended December 31,			Period From February 20 (inception) to December 31, 2001	Period From January 1 to July 20, 2001	Year Ended December 31, 2000
	2004	2003	2002			
Net income (loss)	\$ 64,725	\$ (34,704)	\$ 18,727	\$17,426	\$(34,020)	\$ 33,388
Add:						
Depreciation and amortization	54,857	92,622	24,614	12,198	25,656	43,199
Interest expense	65,418	71,256	60,501	29,717	20,303	41,700
Loss on extinguishment of debt	21,075	13,479	—	—	—	—
Provision (benefit) for income taxes	43,529	(6,276)	30,106	18,016	1,110	34,751
Less:						
Interest income	4,264	3,560	3,272	2,427	1,567	2,554
EBITDA	<u>\$245,340</u>	<u>\$132,817</u>	<u>\$130,676</u>	<u>\$74,930</u>	<u>\$ 11,482</u>	<u>\$150,484</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are the largest global commercial real estate services firm, based on 2004 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2004, excluding affiliates and partner offices, we operated in over 200 offices worldwide with approximately 13,500 employees providing commercial real estate services under the "CB Richard Ellis" brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

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

Macroeconomic Conditions

Economic trends and government policies directly affect our operations as well as global and regional commercial real estate markets generally. These include: overall economic activity and employment growth, interest rate levels, the availability of credit to finance transactions and the impact of tax and regulatory policies. Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can 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 sales prices as well as a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage 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.

During 2002 and 2001, we were adversely affected by the slowdown in the United States economy, which negatively impacted the commercial real estate market generally. This caused a decline in our leasing activities within the United States. Moreover, in part because of the terrorist attacks on September 11, 2001 and the run-up to the conflict with Iraq, the economic climate in the United States became very uncertain, which had an adverse effect on commercial real estate market conditions and, in turn, our operating results for 2002 and 2001. During 2003 and 2004, economic conditions in the United States improved, which positively impacted the commercial real estate market generally. This caused an improvement in our Americas segment's revenue, particularly in sales and leasing activities. We expect this trend to continue in the near term.

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 also has sought to improve operational performance through cost reduction programs. For example, as economic conditions worsened in 2001, our management team made targeted reductions in our workforce, reduced senior management bonuses, streamlined general and

administrative operations and cut capital expenditures and other discretionary operating expenses. As a result of the operating leverage inherent in our business, we were able to reduce our operating expenses by \$18.7 million during 2002 as compared to 2001. Notwithstanding these approaches, adverse global and regional economic changes remain one of the most significant risks to our future financial condition and results of operations.

Effects of Prior Acquisitions

Our management historically has made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. For example, we enhanced our mortgage banking services through our 1996 acquisition of L.J. Melody & Company (L.J. Melody) and we significantly increased the scale of our investment management business through our 1995 acquisition of Westmark Realty Advisors and our 1997 acquisition of Koll Real Estate Services. An example of a strategic acquisition that increased our geographic coverage was our 1998 acquisition of Hillier Parker May & Rowden in the United Kingdom. Our largest acquisition to date was our 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.

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures and charges and the costs of integrating the acquired business and its financial and accounting systems into our own. For example, through December 31, 2004, we have incurred \$200.9 million of transaction-related expenditures in connection with our acquisition of Insignia in 2003 and \$87.6 million of transaction-related expenditures in connection with our acquisition of CB Richard Ellis Services in 2001. Transaction-related expenditures include 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 December 31, 2004, we have incurred \$28.0 million of expenses in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own. We expect to incur additional Insignia-related integration expenses of approximately \$6.5 million during 2005 and approximately \$4.0 million during 2006.

International Operations

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

Leverage

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

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

In addition, on June 15, 2004 we received aggregate net proceeds of approximately \$135.0 million, after deducting the underwriting discounts and commissions and offering expenses payable by us, in connection with the sale of 7,726,764 shares of our Class A common stock pursuant to the completion of our initial public offering. During June 2004, we used a portion of the net proceeds received from the offering to prepay \$15.0 million in principal amount of the term loan under our amended and restated credit agreement and during July 2004, we used the remaining net proceeds we received from the offering to redeem all \$38.3 million in aggregate principal amount of our remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9 3/4% senior notes. Lastly, in early 2005, we repurchased \$26.4 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. 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, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. We believe that the following critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements:

Revenue Recognition

We record real estate commissions on sales generally upon close of escrow or transfer of title, except when future contingencies exist. Real estate commissions on leases are generally recorded as income once we satisfy all obligations under the commission agreement. Terms and conditions of a commission agreement may include, but are not limited to, execution of a signed lease agreement and future contingencies including tenant occupancy, payment of a deposit or payment of a first month's rent (or a combination thereof). As some of these conditions are outside of our control and are often not clearly defined, judgment must be exercised in determining when such required events have occurred in order to recognize revenue.

A typical commission agreement provides that we earn a portion of the lease commission upon the execution of the lease agreement by the tenant, while the remaining portion(s) of the lease commission is earned at a later date, usually upon tenant occupancy. The existence of any significant future contingencies, such as tenant occupancy, results in the delay of recognition of corresponding revenue until such contingencies are

satisfied. For example, if we do not earn all or a portion of the lease commission until the tenant pays its first month's rent, and the lease agreement provides the tenant with a free rent period, we delay revenue recognition until rent is paid by the tenant.

Investment management and property management fees are generally based upon percentages of the revenue or profit generated by the entities managed and are recognized when earned under the provisions of the related management agreements. Our Global Investment Management segment earns performance-based incentive fees with regard to many of its investments. Such revenue is recognized at the end of the measurement periods when the conditions of the applicable incentive fee arrangements have been satisfied. With many of these investments, our Global Investment Management team has participation interests in such incentive fees. These participation interests are accrued for based upon the probability of such performance-based incentive fees being earned.

Appraisal fees are recorded after services have been rendered. Loan origination fees are recognized at the time a loan closes and we have no significant remaining obligations for performance in connection with the transaction, while loan servicing fees are recorded to revenue as monthly principal and interest payments are collected from mortgagors. Other commissions, consulting fees and referral fees are recorded as income at the time the related services have been performed, unless significant future contingencies exist.

In establishing the appropriate provisions for trade receivables, we make assumptions with respect to future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivables balances. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are more than 180 days overdue are fully provided for. Historically, our credit losses have been insignificant. However, estimating losses requires significant judgment, and conditions may change or new information may become known after any periodic evaluation. As a result, actual credit losses may differ from our estimates.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our majority owned subsidiaries. The equity attributable to minority shareholders' interests in subsidiaries is shown separately in our consolidated balance sheets included elsewhere in this filing. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Goodwill and Other Intangible Assets

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

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

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, “*Accounting for Income Taxes*.” Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured by applying enacted tax rates and laws and are released to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Loss contingencies resulting from tax audits or certain tax positions are accrued when the potential loss can be reasonably estimated and where occurrence is probable.

Basis of Presentation

Recent Significant Acquisitions and Dispositions

On July 23, 2003, pursuant to an amended and restated agreement and plan of merger, dated as of May 28, 2003, by and among CB Richard Ellis Services, CB Richard Ellis Group, Apple Acquisition Corp., a Delaware corporation and wholly owned subsidiary of CB Richard Ellis Services, and Insignia Financial Group, Inc., Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the merger and at the effective time of the merger became a wholly owned subsidiary of CB Richard Ellis Services. Also on July 23, 2003, immediately prior to the completion of the merger, Insignia completed the sale of its real estate investment assets to Island Fund I LLC for cash consideration of \$36.9 million pursuant to a purchase agreement, dated as of May 28, 2003, among CB Richard Ellis Group, CB Richard Ellis Services, Apple Acquisition, Insignia Financial Group and Island Fund. These real estate investment assets consisted of Insignia subsidiaries and joint ventures that held (1) minority investments in office, retail, industrial, apartment and hotel properties, (2) minority investments in office development projects and a related undeveloped parcel of land, (3) wholly owned or consolidated investments in Norman, Oklahoma, New York City and the U.S. Virgin Islands and (4) investments in private equity funds that invest in mortgage-backed debt securities and other real estate-related assets.

Segment Reporting

Effective with the fourth quarter of 2004, we reorganized our business segments for financial reporting purposes by separating the Global Investment Management business from our geographic regions. This action was taken in an effort to increase our transparency of reporting in light of the growing significance of our Global Investment Management business. This reorganization has reduced revenues and earnings in the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific regions, but has had no impact on consolidated results. All periods presented have been restated to conform with the 2004 presentation.

We now report our operations through four primary 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 years ended December 31, 2004, 2003 and 2002:

	Year Ended December 31,					
	2004		2003		2002	
	(Dollars in thousands)					
Revenue	\$2,365,096	100.0%	\$1,630,074	100.0%	\$1,170,277	100.0%
Costs and expenses:						
Cost of services	1,203,765	50.9	796,428	48.8	547,093	46.7
Operating, administrative and other	909,892	38.5	678,377	41.6	501,798	42.9
Depreciation and amortization	54,857	2.3	92,622	5.7	24,614	2.1
Merger-related charges	25,574	1.1	36,817	2.3	36	—
Operating income	171,008	7.2	25,830	1.6	96,736	8.3
Equity income from unconsolidated subsidiaries	19,475	0.8	14,365	0.9	9,326	0.8
Interest income	4,264	0.2	3,560	0.2	3,272	0.3
Interest expense	65,418	2.8	71,256	4.4	60,501	5.2
Loss on extinguishment of debt	21,075	0.9	13,479	0.8	—	—
Income (loss) before provision (benefit) for income taxes	108,254	4.5	(40,980)	(2.5)	48,833	4.2
Provision (benefit) for income taxes	43,529	1.8	(6,276)	(0.4)	30,106	2.6
Net income (loss)	<u>\$ 64,725</u>	<u>2.7%</u>	<u>\$ (34,704)</u>	<u>(2.1)%</u>	<u>\$ 18,727</u>	<u>1.6%</u>
EBITDA	<u>\$ 245,340</u>	<u>10.4%</u>	<u>\$ 132,817</u>	<u>8.1%</u>	<u>\$ 130,676</u>	<u>11.2%</u>

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

EBITDA is calculated as follows:

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Net income (loss)	\$ 64,725	\$ (34,704)	\$ 18,727
Add:			
Depreciation and amortization	54,857	92,622	24,614
Interest expense	65,418	71,256	60,501
Loss on extinguishment of debt	21,075	13,479	—
Provision (benefit) for income taxes	43,529	(6,276)	30,106
Less:			
Interest income	4,264	3,560	3,272
EBITDA	<u>\$245,340</u>	<u>\$132,817</u>	<u>\$130,676</u>

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

We reported consolidated net income of \$64.7 million for the year ended December 31, 2004 on revenue of \$2.4 billion as compared to a consolidated net loss of \$34.7 million on revenue of \$1.6 billion for the year ended December 31, 2003.

Our revenue on a consolidated basis increased by \$735.0 million, or 45.1%, during the year ended December 31, 2004 as compared to the year ended December 31, 2003. The increase was primarily due to the combination of the Insignia Acquisition and organic market share growth and we expect that this increased revenue level will be maintained in the near term. The strong revenue growth in 2004 was driven by significantly higher sales transaction revenue as well as increased lease transaction, management, consulting and appraisal fees. In our Global Investment Management segment, we generated higher investment management fees as a result of incentive fees earned in Japan as well as the growth of our business in the United Kingdom, which was partially attributable to the Insignia Acquisition. Additionally, with the anticipation of rising interest rates in the United States earlier in the year, we experienced an increase in loan origination fees in our Americas business segment. Finally, foreign currency translation had a \$68.8 million positive impact on total revenue during the year ended December 31, 2004.

Our cost of services on a consolidated basis increased by \$407.3 million, or 51.1%, during the year ended December 31, 2004 as compared to the year ended December 31, 2003. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the overall increase in revenue. The Insignia Acquisition has contributed to higher payroll-related costs, including bonus accruals, insurance and benefits, producer retention and broker draw amortization. Producer retention bonuses were paid to the top real estate advisory services professionals that we retained in the acquisition. The producer retention expense represents the amortization of these bonuses, which are being amortized through cost of services over the lives of the related employment agreements. As part of our refinement of the purchase price allocation for the Insignia Acquisition, during the three months ended March 31, 2004, we assigned a \$6.6 million fair value to a broker draw asset acquired in the Insignia Acquisition. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimated that we would derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia Acquisition and, accordingly, we are amortizing it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. During the year ended December 31, 2004, we have recorded \$4.7 million for the amortization of this broker draw asset, which includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003. The producer retention and the broker draw amortization are considered integration costs associated with the Insignia Acquisition and together amounted to \$10.4 million for the year

ended December 31, 2004. Foreign currency translation had a \$29.8 million negative impact on cost of services during the year ended December 31, 2004. Cost of services as a percentage of revenue increased from 48.8% for the year ended December 31, 2003 to 50.9% for the year ended December 31, 2004, primarily driven by producers reaching higher commission tranches as a result of higher revenue as well as the producer retention and broker draw amortization recorded in 2004 and the mix of compensation structures as a result of compensation plans adopted in the Insignia Acquisition.

Our operating, administrative and other expenses on a consolidated basis were \$909.9 million, an increase of \$231.5 million, or 34.1%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The increase was primarily driven by higher costs as a result of the Insignia Acquisition as well as increased worldwide payroll-related expenses, such as bonuses and insurance and benefits, higher marketing expenses, increased net legal costs and higher occupancy expenses, particularly in our EMEA business segment. Professional fees of \$5.5 million in the current year related to the ongoing Sarbanes-Oxley compliance work as well as the write-down of investments of \$5.1 million in our Americas business segment also contributed to the variance. During the current year, we also incurred one-time compensation expense of \$15.0 million related to bonus payments that were triggered by our initial public offering and were payable to several of our non-executive real estate advisory services employees as a result of provisions in their employment agreements. Additionally, in 2003 total operating expenses were reduced by substantial net foreign currency transaction gains resulting from a weaker U.S. dollar, while in the current year we experienced only moderate net foreign currency transaction gains. The lower net foreign currency transaction gains experienced in the current year were a result of the U.S. dollar weakening at a slower pace as compared to the prior year, particularly relative to the Australian and New Zealand dollars. Additionally, net foreign currency transaction gains were offset in the current year by \$1.8 million of expense incurred related to option agreements entered into, which expired on December 29, 2004. Finally, foreign currency translation had a \$30.4 million negative impact on total operating expenses during the year ended December 31, 2004.

Our depreciation and amortization expense on a consolidated basis decreased by \$37.8 million, or 40.8%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The decrease was largely due to lower amortization expense related to intangibles acquired in the Insignia Acquisition, including a reduction in amortization expense of \$46.1 million related to acquired net revenue backlog. As of December 31, 2004, the intangible asset representing the net revenue backlog acquired in the Insignia Acquisition was fully amortized. Partially offsetting the decrease in amortization expense was a \$5.4 million increase in depreciation expense during 2004 mainly related to depreciation expense associated with fixed assets acquired in the Insignia Acquisition.

Our merger-related charges on a consolidated basis were \$25.6 million and \$36.8 million for the year ended December 31, 2004 and 2003, respectively. The charges for both years primarily consisted of lease termination costs associated with vacated spaces, consulting costs and severance costs, all of which were attributable to the Insignia Acquisition.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by \$5.1 million, or 35.6%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003, primarily due to the improved overall performance of our equity investments in our Americas business segment and our Global Investment Management segment, particularly in Japan and the United Kingdom. These increases were partially offset, on a year over year comparison basis, by the impact of a one-time gain on the sale of owned units in an investment fund recognized in the prior year in the United States in our Global Investment Management segment.

Our consolidated interest expense was \$65.4 million for the year ended December 31, 2004, a decrease of \$5.8 million, or 8.2%, as compared to the year ended December 31, 2003, primarily due to interest savings realized as a result of debt repayments starting in the fourth quarter of 2003 and continuing throughout 2004. As a result of our de-leveraging efforts in 2004, we expect to achieve annual cash interest savings of approximately \$16.0 million. Our management expects to continue to look for opportunities to reduce our debt in the future.

Our loss on the extinguishment of debt on a consolidated basis was \$21.1 million and \$13.5 million for the year ended December 31, 2004 and 2003, respectively. The loss incurred during the current year was related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the redemptions of \$70.0 million in aggregate principal amount of our 9¾% senior notes and \$38.3 million in aggregate principal amount of our 16.0% senior notes with the net proceeds received from our initial public offering. Additionally, we incurred a loss of \$4.0 million in the second quarter of 2004 related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the \$21.6 million repurchase of our 11¼% senior subordinated notes in the open market during May and June 2004. The loss in 2003 related to the write-off of unamortized deferred financing fees associated with a prior credit facility, which was replaced in connection with the Insignia Acquisition, and the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the redemption of \$30.0 million in aggregate principal amount of our 16.0% senior notes in the fourth quarter of 2003. We expect to incur additional losses in connection with the continuation of our de-leveraging efforts in the future.

Our provision for income taxes on a consolidated basis was \$43.5 million for the year ended December 31, 2004 as compared to a benefit for income taxes of \$6.3 million for the year ended December 31, 2003. Our effective tax rate rose from a 15.3% benefit for the year ended December 31, 2003 to a 40.2% provision for the year ended December 31, 2004. The increases in the provision for income taxes and the effective tax rate in the current year were primarily driven by the significant increase in pre-tax income over 2003. The change in the mix of domestic and foreign earnings also contributed to the year-over-year variance in the effective tax rate.

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

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

Our revenue on a consolidated basis increased \$459.8 million, or 39.3%, during the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was driven by higher revenue as a result of our capturing a larger market share in our Americas real estate services business line through our acquisition of Insignia, particularly relative to leasing activity in the New York area. Additionally, as a result of the improvement of general economic conditions in the United States, we experienced significantly higher sales transaction revenue as well as increased lease transaction revenue and appraisal fees. Internationally, the Insignia Acquisition helped us to expand our reach in Europe as evidenced by increased sales and lease transaction revenue, as well as higher consultation and appraisal fees, particularly in London and Paris. Lastly, foreign currency translation had a \$54.4 million positive impact on total revenue during the year ended December 31, 2003.

Our cost of services on a consolidated basis totaled \$796.4 million, an increase of \$249.3 million, or 45.6%, from the year ended December 31, 2002. As previously mentioned, our sales and leasing professionals are paid on a commission and bonus basis, which generally correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the overall increase in revenue. The Insignia Acquisition also contributed to higher payroll related costs including, bonus accruals, insurance and benefits, pension expense and producer retention expense. The producer retention expense, which represents amounts paid to the top real estate advisory services professionals that we retained at the time of the acquisition, is being amortized through cost of services over the lives of the related employment agreements. The producer retention expense is considered an integration cost associated with the Insignia Acquisition and amounted to \$2.7 million for the year ended December 31, 2003. Finally, foreign currency translation had a \$23.9 million negative impact on cost of services during the year ended December 31, 2003. Costs of services as a percentage of revenue increased from 46.7% for the year ended December 31, 2002 to 48.8% for the year ended December 31, 2003, primarily driven by the new mix of compensation structures as a result of compensation plans adopted in the Insignia Acquisition.

Our operating, administrative and other expenses on a consolidated basis were \$678.4 million, an increase of \$176.6 million, or 35.2 %, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by higher costs as a result of the Insignia Acquisition, including \$10.9 million of integration costs, as well as increased worldwide bonuses and payroll-related expenses, principally in the Americas and Europe. Included in the 2003 bonus amount was an accrual for a one-time performance award of approximately \$6.9 million. Also contributing to the variance was a nonrecurring legal settlement in the United States in 2003 as well as higher occupancy expense in the United Kingdom as a result of our relocation to a new facility in 2003. Lastly, foreign currency translation had a \$23.4 million negative impact on total operating expenses during the year ended December 31, 2003. These increases were partially offset by net foreign currency transaction gains resulting from a weaker U.S. dollar.

Our depreciation and amortization expense on a consolidated basis increased by \$68.0 million, or 276.3%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 mainly due to \$59.1 million of amortization of the net revenue backlog acquired as part of the Insignia Acquisition. As of December 31, 2003, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Insignia Acquisition was \$13.4 million, which was fully amortized by the end of 2004 (see Note 7 of the Notes to Consolidated Financial Statements). The increase over the prior year was also due to a one-time reduction of amortization expense recorded in 2002 related to the adjustment of certain intangible assets to their estimated fair values as of their acquisition date in connection with our acquisition of CB Richard Ellis Services in 2001.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased \$5.0 million, or 54.0%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002, primarily due to a one-time gain on sale of owned units in an investment fund. In addition, the trend of improved performance in our other domestic joint ventures continued, but was offset by a decrease in equity income versus the prior year as a result of a one-time disposition fee received in 2002 upon liquidation of one of our U.S. joint ventures in the normal course of business upon completion of the investment strategy set forth in its joint venture agreement.

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

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

Our loss on extinguishment of debt on a consolidated basis was \$13.5 million for the year ended December 31, 2003. The loss incurred in 2003 was primarily driven by the \$6.8 million write-off of unamortized deferred financing fees associated with a prior credit facility, which was replaced in connection with the Insignia Acquisition. Additionally, we incurred a \$6.7 million loss as a result of the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the redemption of \$30.0 million in aggregate principal amount of our 16.0% senior notes in the fourth quarter of 2003.

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

Segment Operations

The following table summarizes our revenue, costs and expenses and operating income (loss) by our Americas, EMEA, Asia Pacific, and the Global Investment Management operating segments for the years ended December 31, 2004, 2003 and 2002.

	Year Ended December 31,					
	2004		2003		2002	
	(Dollars in thousands)					
Americas						
Revenue	\$1,660,307	100.0%	\$1,155,461	100.0%	\$861,027	100.0%
Costs and expenses:						
Cost of services	924,856	55.7	609,629	52.8	438,842	51.0
Operating, administrative and other	569,195	34.3	438,425	37.9	335,623	39.0
Depreciation and amortization	37,514	2.3	56,865	4.9	15,757	1.8
Merger-related charges	22,038	1.3	20,367	1.8	36	—
Operating income	<u>\$ 106,704</u>	<u>6.4%</u>	<u>\$ 30,175</u>	<u>2.6%</u>	<u>\$ 70,769</u>	<u>8.2%</u>
EBITDA	<u>\$ 154,506</u>	<u>9.3%</u>	<u>\$ 95,113</u>	<u>8.2%</u>	<u>\$ 93,601</u>	<u>10.9%</u>
EMEA						
Revenue	\$ 459,741	100.0%	\$ 298,725	100.0%	\$171,187	100.0%
Costs and expenses:						
Cost of services	206,258	44.9	135,864	45.5	70,309	41.1
Operating, administrative and other	207,326	45.1	136,644	45.8	81,936	47.8
Depreciation and amortization	12,050	2.6	31,110	10.4	4,446	2.6
Merger-related charges	3,205	0.7	15,958	5.3	—	—
Operating income (loss)	<u>\$ 30,902</u>	<u>6.7%</u>	<u>\$ (20,851)</u>	<u>(7.0)%</u>	<u>\$ 14,496</u>	<u>8.5%</u>
EBITDA	<u>\$ 42,433</u>	<u>9.2%</u>	<u>\$ 10,053</u>	<u>3.4%</u>	<u>\$ 18,968</u>	<u>11.1%</u>
Asia Pacific						
Revenue	\$ 151,034	100.0%	\$ 107,501	100.0%	\$ 80,929	100.0%
Costs and expenses:						
Cost of services	72,651	48.1	50,935	47.3	37,942	46.9
Operating, administrative and other	57,354	38.0	46,802	43.5	38,520	47.5
Depreciation and amortization	2,476	1.6	2,226	2.1	2,228	2.8
Merger-related charges	—	—	492	0.5	—	—
Operating income	<u>\$ 18,553</u>	<u>12.3%</u>	<u>\$ 7,046</u>	<u>6.6%</u>	<u>\$ 2,239</u>	<u>2.8%</u>
EBITDA	<u>\$ 21,584</u>	<u>14.3%</u>	<u>\$ 9,633</u>	<u>9.0%</u>	<u>\$ 5,058</u>	<u>6.2%</u>
Global Investment Management						
Revenue	\$ 94,014	100.0%	\$ 68,387	100.0%	\$ 57,134	100.0%
Costs and expenses:						
Operating, administrative and other	76,017	80.8	56,506	82.7	45,719	80.0
Depreciation and amortization	2,817	3.0	2,421	3.5	2,183	3.8
Merger-related charges	331	0.4	—	—	—	—
Operating income	<u>\$ 14,849</u>	<u>15.8%</u>	<u>\$ 9,460</u>	<u>13.8%</u>	<u>\$ 9,232</u>	<u>16.2%</u>
EBITDA	<u>\$ 26,817</u>	<u>28.5%</u>	<u>\$ 18,018</u>	<u>26.3%</u>	<u>\$ 13,049</u>	<u>22.8%</u>

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 operating performance compared to that of other companies in our industry because the calculation of EBITDA generally

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

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

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

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Americas			
Operating income	\$106,704	\$ 30,175	\$70,769
Add:			
Depreciation and amortization	37,514	56,865	15,757
Equity income from unconsolidated Subsidiaries	10,288	8,073	7,075
EBITDA	<u>\$154,506</u>	<u>\$ 95,113</u>	<u>\$93,601</u>
EMEA			
Operating income (loss)	\$ 30,902	\$(20,851)	\$14,496
Add:			
Depreciation and amortization	12,050	31,110	4,446
Equity (loss) income from unconsolidated Subsidiaries	(519)	(206)	26
EBITDA	<u>\$ 42,433</u>	<u>\$ 10,053</u>	<u>\$18,968</u>
Asia Pacific			
Operating income	\$ 18,553	\$ 7,046	\$ 2,239
Add:			
Depreciation and amortization	2,476	2,226	2,228
Equity income from unconsolidated Subsidiaries	555	361	591
EBITDA	<u>\$ 21,584</u>	<u>\$ 9,633</u>	<u>\$ 5,058</u>
Global Investment Management			
Operating income	\$ 14,849	\$ 9,460	\$ 9,232
Add:			
Depreciation and amortization	2,817	2,421	2,183
Equity income from unconsolidated subsidiaries	9,151	6,137	1,634
EBITDA	<u>\$ 26,817</u>	<u>\$ 18,018</u>	<u>\$13,049</u>

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The Americas

Revenue increased by \$504.8 million, or 43.7%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The overall increase was primarily driven by the combination of the Insignia

Acquisition and organic market share growth, particularly in our real estate services area of our advisory services line of business. As a result of the Insignia Acquisition, in the current year we generated higher transaction revenues particularly relative to leasing activity, primarily in the New York area, as well as increased property management fees. Organic growth was fueled by the continued improvement of general economic conditions, which led to an increase in lease transaction revenue. Organic sales transaction revenue growth was robust due to favorably low interest rates and investors' increased allocation of funds to real estate, while the anticipation of higher interest rates resulted in higher loan origination fees primarily during the first part of the year.

Cost of services increased by \$315.2 million, or 51.7%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The increase was primarily due to higher commission expense, bonus accruals, insurance and benefits, producer retention and broker draw amortization as a result of the overall increase in revenue as well as due to the Insignia Acquisition. The producer retention expense, which represents amounts paid to the top real estate advisory services professionals of Insignia that we retained at the time of the acquisition, is being amortized through cost of services over the respective lives of their underlying employment agreements. The broker draw amortization of \$4.7 million includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003. It also reflects the pattern in which the economic benefits of the broker draw asset acquired in the Insignia Acquisition are consumed, the fair value of which was refined during the three months ended March 31, 2004. The remaining net broker draw asset of \$1.9 million will be amortized on a straight-line basis over the first seven months of 2005. Both the producer retention and the broker draw amortization are considered integration costs associated with the Insignia Acquisition and together amounted to \$8.0 million for the year ended December 31, 2004. Cost of services as a percentage of revenue increased from 52.8% for the year ended December 31, 2003 to 55.7% for the year ended December 31, 2004, primarily driven by producers reaching higher commission tranches as a result of higher revenue production as well as the producer retention and broker draw amortization recorded in 2004 and the new mix of compensation structures as a result of compensation plans adopted in the Insignia Acquisition.

Operating, administrative and other expenses increased \$130.8 million, or 29.8%. The increase was primarily driven by higher costs as a result of the Insignia Acquisition as well as higher payroll-related expenses, including bonuses and insurance and benefits. Additionally, we incurred higher marketing expenses, net legal costs, professional fees, including \$5.5 million related to Sarbanes-Oxley compliance work and \$5.1 million of charges for the write-down of investments. The investment write-downs are primarily related to the write-off of our investments in Workplace IQ, Ltd. and KB Opportunity Investors in their entirety. The write-off of our investment in Workplace IQ, Ltd. resulted from a period of negative operating cash flows brought about by unanticipated product delays during 2004 as well as the restructuring and recapitalization of this entity in 2004, which caused a significant decline in our ownership percentage and preference in equity distributions. The write-off of our investment in KB Opportunity Investors was based on recent projections which indicated that this investment would no longer produce positive cash flows. We also incurred one-time costs as a result of our initial public offering, including compensation expense of \$15.0 million related to bonus payments made to several of our non-executive real estate advisory services employees as a result of provisions in their employment agreements. Additionally, in 2003 total operating expenses were reduced by substantial net foreign currency transaction gains resulting from a weaker U.S. dollar while in the current year we experienced only moderate net foreign currency transaction gains. The lower net foreign currency transaction gains experienced in the current year were as a result of the U.S. dollar weakening at a slower pace as compared to the prior year, particularly relative to the Australian and New Zealand dollars. Additionally, net foreign currency transaction gains were offset in the current year by \$1.8 million of expense incurred related to option agreements entered into, which expired on December 29, 2004.

EMEA

Revenue increased by \$161.0 million, or 53.9%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003, primarily driven by increased revenue as a result of the Insignia Acquisition as

well as organic growth. This was evidenced by higher sales and lease transaction revenue, particularly in London and Paris, as well as increased appraisal, consultation and management fees, predominantly in the United Kingdom. Foreign currency translation had a \$46.6 million positive impact on total revenue during the year ended December 31, 2004.

Cost of services increased \$70.4 million, or 51.8%, as a result of higher producer compensation expense as well as increased payroll-related costs, including bonuses and insurance and benefits, particularly in the United Kingdom and France, mainly due to higher revenue. Also included in producer compensation expense were integration costs of \$2.4 million, representing the amortization of bonuses paid to the top producers in the United Kingdom, which are being amortized over the respective lives of their underlying employment agreements. Foreign currency translation had a \$20.9 million negative impact on cost of services during the year ended December 31, 2004.

Operating, administrative and other expenses increased by \$70.7 million, or 51.7%, mainly driven by higher payroll-related expenses, including bonuses and insurance and benefits, as well as higher marketing expenses, particularly in the United Kingdom and France, primarily due to the Insignia Acquisition and consistent with the higher overall revenue. Also, expenses in the United Kingdom were higher due to increased occupancy expense as a result of our relocation to a new facility in London in the fourth quarter of 2003 as well as \$12.8 million of charges related to idle facilities and a sublease termination in the United Kingdom. Foreign currency translation had a \$20.8 million negative impact on total operating expenses during the year ended December 31, 2004.

Asia Pacific

Revenue increased by \$43.5 million, or 40.5%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The increase was primarily driven by an overall increase in revenue in Australia, Japan and China, primarily resulting from our successful efforts to increase market share in the region. Foreign currency translation had a \$12.2 million positive impact on total revenue during the year ended December 31, 2004.

Cost of services increased by \$21.7 million, or 42.6%, mainly attributable to higher producer compensation expense due to increased headcount in Australia and Japan resulting from our efforts to increase our market share in the region, in addition to higher commissions as a result of higher transaction revenue. Foreign currency translation had a \$6.0 million negative impact on cost of services for the year ended December 31, 2004.

Operating, administrative and other expenses increased by \$10.6 million, or 22.5%, primarily due to higher payroll-related costs, including bonuses, mainly driven by the increased headcount and improved overall performance in the region. A new long-term incentive plan with a four year term was started in Australia and New Zealand in 2004 as the former long-term incentive plan ended in 2003. Despite improved performance, compensation expense for Australia and New Zealand was lower for the year ended December 31, 2004 as compared to the year ended December 31, 2003 as a result of higher accruals for the former long-term incentive plan in the prior year. These accruals are typically higher in the last few years of a long-term incentive plan as measured performance is more heavily weighted in the latter stages of a plan. Also contributing to the increase in operating expenses were higher marketing expenses, particularly in Australia and China, which was consistent with higher revenue generation. Foreign currency translation had a \$4.5 million negative impact on total operating expenses during the year ended December 31, 2004.

Global Investment Management

Revenue increased by \$25.6 million, or 37.5%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. The increase was primarily driven by higher revenues in Europe largely due to the growth of our business in the United Kingdom, which was partially attributable to the Insignia Acquisition, as well as higher incentive fees in Japan resulting from the strong market for publicly traded REITS. Foreign currency translation had a \$4.4 million positive impact on total revenue during the year ended December 31, 2004.

Operating, administrative and other expenses increased by \$19.5 million, or 34.5%, primarily due to higher payroll-related costs, including bonuses, mainly resulting from the revenue growth. Additionally, higher bad debt expense in Japan related to the write-off on an uncollectible receivable during the current year also contributed to the increase. Foreign currency translation had a \$3.1 million negative impact on total operating expenses during the year ended December 31, 2004.

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

The Americas

Revenue increased by \$294.4 million, or 34.2%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily driven by the expansion of our market share in our real estate services business line through our acquisition of Insignia, particularly in the leasing industry in the New York area. Additionally, the improvement of general economic conditions in the United States led to an increase in volume of transactions resulting in significantly higher sales transaction revenue as well as increased lease transaction revenue and appraisal fees.

Cost of services increased by \$170.8 million, or 38.9%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily due to higher commission expense, bonus accruals and producer retention expense as a result of the Insignia Acquisition as well as the higher sales and lease transaction revenue. The producer retention expense represents bonuses paid to the top advisory services professionals of Insignia that we retained at the time of the acquisition that is being amortized through cost of services over the respective lives of the underlying employment agreements. The producer retention expense is considered an integration cost associated with the Insignia Acquisition and amounted to \$1.5 million for the year ended December 31, 2003.

Operating, administrative and other expenses increased \$102.8 million, or 30.6%, mainly caused by higher costs as a result of the Insignia Acquisition, including integration expenses of \$9.1 million, increased bonuses and payroll related costs mainly resulting from improved operating performance, and a nonrecurring legal settlement in the United States. Included in the 2003 bonus was an accrual for a one-time performance award of approximately \$6.9 million. These increases were partially offset by net foreign currency transaction gains resulting from the weakened U.S. dollar, a trend that we experienced in 2003 and 2002.

EMEA

Revenue increased by \$127.5 million, or 74.5%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002, primarily driven by increased revenue as a result of the Insignia Acquisition as evidenced by higher sales and lease transaction revenue as well as increased consultation and appraisal fees, predominantly in the United Kingdom and France. Foreign currency translation had a \$34.1 million positive impact on total revenue during the year ended December 31, 2003.

Cost of services increased \$65.6 million, or 93.2%, as a result of higher producer compensation expense and bonuses as well as increased payroll-related costs, including insurance expense, throughout Europe and pension expense in the United Kingdom, primarily due to the Insignia Acquisition. Also included in producer compensation expense for 2003 were integration costs of \$1.2 million, representing the amortization of bonuses paid to the top producers in the United Kingdom, which is being amortized over the respective lives of the underlying employment agreements. Foreign currency translation had a \$15.1 million negative impact on cost of services during the year ended December 31, 2003.

Operating, administrative and other expenses increased by \$54.7 million, or 66.8%, mainly driven by increased costs as a result of the Insignia Acquisition, including integration expenses of \$1.8 million, as well as higher bonus, payroll related and consulting expenses. Additionally, occupancy expense was higher in the United Kingdom as a result of our relocation to a new facility. Lastly, foreign currency translation had a \$14.9 million negative impact on total operating expenses during the year ended December 31, 2003.

Asia Pacific

Revenue increased by \$26.6 million, or 32.8%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by an overall increase in revenue in Australia and New Zealand, primarily resulting from our incremental efforts to increase our market share in the region as well as due to our organic growth. Foreign currency translation had a \$12.9 million positive impact on total revenue during the year ended December 31, 2003.

Cost of services increased by \$13.0 million, or 34.2%, mainly attributable to increased transaction revenue as well as higher producer compensation expense due to increased headcount in Australia and New Zealand resulting from our incremental efforts to increase our market share in this region. Foreign currency translation had a \$6.1 million negative impact on cost of services for the year ended December 31, 2003.

Operating, administrative and other expenses increased by \$8.3 million, or 21.5%, primarily due to an increased accrual for long-term incentives as well as higher payroll related costs in Australia and New Zealand. The long-term incentive plan term ended in 2003 with payout of approximately \$7.8 million anticipated in early 2004. Foreign currency translation also had a \$5.1 million negative impact on total operating expenses during the year ended December 31, 2003.

Global Investment Management

Revenue increased by \$11.3 million, or 19.7%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by higher incentive fees earned in the United States as well as increased revenue in the United Kingdom, which was partially attributable to the Insignia Acquisition. Foreign currency translation had a \$2.4 million positive impact on total revenue during the year ended December 31, 2003.

Operating, administrative and other expenses increased by \$10.8 million, or 23.6%, primarily due to higher payroll-related costs, including bonuses, primarily driven by revenue growth. Foreign currency translation had a \$1.9 million negative impact on total operating expenses during the year ended December 31, 2003.

Liquidity and Capital Resources

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under the revolving credit facility of our amended and restated credit agreement described below. Included in the capital requirements that we expect to be able to fund during 2005 is approximately \$36.0 million of anticipated capital expenditures. The capital expenditures for 2005 are primarily comprised of information technology costs, which are driven largely by computer replacement costs as well as costs associated with upgrading various servers and systems, and leasehold improvements.

During 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 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 other material transactions on terms that our management believed to be reasonable. However, it is possible that we may not be able to find acquisition financing on favorable terms in the future, if we decide to make any material acquisitions.

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan in 2010, our 9¾% senior notes in 2010 and our 11¼% senior subordinated notes in 2011. In May and June 2004, we repurchased \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. During June 2004, we used a portion of the net proceeds we received from our June 15, 2004 initial public offering to prepay \$15.0 million in principal amount of the senior secured term loan under our amended and restated credit agreement. During July 2004, we used the remaining net proceeds received from the offering to redeem all \$38.3 million in aggregate principal amount of our remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9¾% senior notes. In early 2005, we repurchased \$26.4 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. In the future, we will continue to look for opportunities to reduce debt. 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 funds for the purpose of funding over half of our future cash deferred compensation obligations. In addition, upon each distribution under the plans, we receive a corresponding tax deduction for such compensation payment. Our U.K. subsidiaries maintain pension plans with respect to which a limited number of our U.K. employees are participants. Our historical policy has been to fund pension costs as actuarially determined and as required by applicable law and regulations. As of December 31, 2004, based upon actuarial calculations of future benefit obligations under these plans, these plans were in the aggregate approximately \$41.9 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 provided by operating activities totaled \$182.2 million for the year ended December 31, 2004, an increase of \$104.9 million compared to the year ended December 31, 2003. The acquisition of Insignia in July 2003 has impacted substantially all components of cash provided by our operating activities making comparison against the prior year not meaningful.

Net cash provided by operating activities totaled \$77.3 million for the year ended December 31, 2003, an increase of \$7.7 million compared to the year ended December 31, 2002. The acquisition of Insignia in July 2003 has impacted substantially all components of cash provided by our operating activities making comparison against the prior year not meaningful.

Investing Activities

Net cash used in investing activities totaled \$23.3 million for the year ended December 31, 2004, a decrease of \$274.8 million compared to the year ended December 31, 2003. This decrease was primarily due to costs incurred in 2003 associated with the Insignia Acquisition. In addition, during the year ended December 31, 2004,

we received proceeds from the sale of property held for sale related to a real estate investment in Japan. The proceeds from the sale were offset by capital expenditures, which increased from the prior year primarily due to integration costs related to leasehold improvements in new and combined offices as a result of the Insignia Acquisition.

Net cash used in investing activities totaled \$298.1 million for the year ended December 31, 2003, an increase of \$269.3 million compared to the year ended December 31, 2002. This increase was primarily due to costs incurred in 2003 associated with the Insignia Acquisition. Capital expenditures of \$40.3 million during the year ended December 31, 2003 were \$21.3 million higher than 2002. This increase was mainly driven by capital expenditures incurred in connection with our relocation to new offices in the United Kingdom in 2003.

Financing Activities

Net cash used in financing activities totaled \$67.4 million for the year ended December 31, 2004 compared to net cash provided by financing activities of \$303.7 million for the year ended December 31, 2003. This decrease was primarily driven by debt repayments made in 2004 as well as a net increase in debt in the prior year mainly relating to the debt financing required by the Insignia Acquisition. The impact of these items was partially offset by prior year repayments of \$43.0 million of Insignia notes payable and \$30.0 million in aggregate principal amount of our 16% senior notes as well as higher deferred financing fees paid in the prior year.

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

Summary of Contractual Obligations and Other Commitments

The following is a summary of our various contractual obligations and other commitments as of December 31, 2004:

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
Total debt (1)	\$ 772,807	\$ 171,923	\$ 24,079	\$ 23,640	\$ 553,165
Operating leases (2)	709,356	113,538	178,630	146,440	270,748
Deferred compensation plan liability (3)	166,684	6,403	15,601	18,518	126,162
Pension liability (3) (4)	27,871	—	—	—	27,871
Total Contractual Obligations	\$1,676,718	\$291,864	\$218,310	\$188,598	\$977,946

<u>Other Commitments</u>	<u>Amount of Other Commitments Expiration</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
Letters of credit (2)	\$ 6,070	\$ 6,070	\$ —	\$ —	\$ —
Guarantees (2) (5)	9,128	9,128	—	—	—
Co-investments (2)	24,260	23,521	739	—	—
Total Other Commitments	\$ 39,458	\$ 38,719	\$ 739	\$ —	\$ —

- (1) See Note 11 of our Notes to the Consolidated Financial Statements. The repurchases by us of \$26.4 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market in January and February 2005 are not reflected above.
- (2) See Note 12 of our Notes to the Consolidated Financial Statements.

- (3) See Note 10 of our Notes to the Consolidated Financial Statements.
- (4) Because these obligations are related, either wholly or partially, to the future retirement of our employees and such retirement dates are not predictable, an undeterminable portion of this amount will be paid in years one through five.
- (5) Due to the nature of guarantees, payments could be due at any time upon the occurrence of certain triggering events including default. Accordingly, all guarantees are reflected as expiring in less than one 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 IPO, we issued and sold 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately \$290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by underwriters and received net proceeds of approximately \$4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sale of shares by the selling stockholders on June 15, 2004 and July 14, 2004. Lastly, in December 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders.

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 SEC and the New York Stock Exchange have required changes in corporate governance practices of public companies. These new 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 substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness and other obligations. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

Most of our long-term indebtedness was incurred in connection with our acquisition of CB Richard Ellis Services in July 2001 and the Insignia Acquisition. The CB Richard Ellis Services acquisition, which was a 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 First Boston, or CSFB, and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our IPO, we completed a refinancing of all amounts outstanding

under our amended and restated credit agreement and entered into a new amended and restated credit agreement, which became effective in connection with such refinancing. On November 15, 2004, we entered into an amendment to our new amended and restated credit agreement (the Credit Agreement), which reduced the interest rate spread of the term loan and increased flexibility on certain restricted payments and investments.

Our previous Credit Agreement permitted us, among other things to use the net proceeds we received from our IPO to pay down debt, including the redemptions in July 2004 of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, and the prepayment of \$15.0 million in principal amount of our term loan under our Credit Agreement, which prepayment occurred on June 15, 2004.

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

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the Credit Agreement, at a higher or lower rate. During June 2004, we used a portion of the net proceeds we received from our IPO to prepay \$15.0 million in principal amount of the term loan facility. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$277.1 million and \$297.5 million as of December 31, 2004 and 2003, respectively.

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

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

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, issued \$200.0 million in aggregate principal amount of 9¾% 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 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes are unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services' current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public

equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem \$70.0 million in aggregate principal amount, or 35%, of our 9¾% 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 9¾% senior notes), we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was \$130.0 million and \$200.0 million as of December 31, 2004 and 2003, respectively.

In June 2001, in order to partially finance our acquisition of CB Richard Ellis Services, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 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 are unsecured senior subordinated obligations of CB Richard Ellis Services and rank equally in right of payment with any of CB Richard Ellis Services' existing and future unsecured senior subordinated indebtedness, but are subordinated to any of CB Richard Ellis Services' existing and future senior indebtedness. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11¼% senior subordinated notes), we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 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 in connection with these open market purchases. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$205.0 million and \$226.2 million as of December 31, 2004 and 2003, respectively. In January and February 2005, we repurchased \$26.4 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of \$4.0 million of premiums in connection with these open market purchases.

Also, to partially fund our acquisition of CB Richard Ellis Services in 2001, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes were unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrued at a rate of 16.0% per year and was payable quarterly in arrears. Under the terms of the indenture governing the 16% senior notes and subject to the restrictions set forth in the Credit Agreement, the notes were redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes and paid \$2.9 million of premiums in connection with these redemptions. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem the remaining \$38.3 million in aggregate principal amount of our 16% senior notes, which also required the payment of a \$2.5 million premium and accrued and unpaid interest through the date of redemption. The amount of the 16% senior notes included in the accompanying consolidated balance sheet, net of unamortized discount was \$35.5 million as of December 31, 2003.

Our Credit Agreement and the indentures governing our 9¾% senior notes, and our 11¼% senior subordinated notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our 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 outstanding senior secured term loan, our 9³/₄% senior notes and our 11¹/₄% senior subordinated notes. 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.

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

Our wholly owned subsidiary, L.J. Melody & Company, has a credit agreement with Residential Funding Corporation, or RFC, for the purpose of funding mortgage loans that will be resold. On August 19, 2004, we entered into a Third Amendment to the Fourth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit). The agreement 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 December 1, 2004. On December 1, 2004, we entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provides for a warehouse line of credit of up to \$250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on September 1, 2005. This agreement provides 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 December 13, 2004, we entered into the First Amendment to the Fifth Amended and Restated Warehousing Credit and Security Agreement whereby the warehousing commitment was temporarily increased to \$315.0 million, effective December 20, 2004. This temporary increase is for the period from December 20, 2004 to and including January 20, 2005. On March 1, 2005, we signed a consent letter to RFC, which approved the assignment and assumption of the Fifth Amended and Restated Credit and Security Agreement by Washington Mutual Bank, FA. We expect that prior to September 1, 2005 L.J. Melody will be able to reach a satisfactory amendment to extend the term of the agreement with RFC or to enter into an agreement with another third party to provide substitute financing arrangements for the purpose of funding mortgage loans. However, if L.J. Melody is unable to do so, the business and results of operations of our mortgage loan origination and servicing line of business may be adversely affected. During the years ended December 31, 2004 and 2003, respectively, we had a maximum of \$279.8 million and \$272.5 million warehouse line of credit principal outstanding with RFC. As of December 31, 2004 and 2003, we had a \$138.2 million and a \$230.8 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had \$138.2 million and \$230.8 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased as of December 31, 2004 and 2003, respectively, which are also included in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995, which significantly expanded our Global Investment Management segment, we issued approximately \$20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2004. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. During the year ended December 31, 2002, all of the Westmark senior notes bore interest at 9.0%. On January 1, 2003, the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our credit agreement. On January 1, 2005, the interest rate on all of the other Westmark senior notes was

adjusted to equal the interest rate then in effect with respect to amounts outstanding under our credit agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$12.1 million as of December 31, 2004 and 2003.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the United Kingdom, which was part of Insignia's business strategy of increasing its presence in that country. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of December 31, 2004 and 2003, \$8.5 million and \$12.2 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

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

Deferred Compensation Plan Obligations

We have two deferred compensation plans, one of which has been frozen and is no longer accepting deferrals, which we refer to as the Old DCP, and one of which became effective on August 1, 2004 and began accepting deferrals on August 13, 2004, which we refer to as the New DCP. Because a substantial majority of the deferrals under both the Old DCP and the New DCP have a distribution date based upon the end of a 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.

Old DCP

Prior to amending the Old DCP as discussed below, each participant in the Old DCP was allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 80 mutual funds. Distributions with respect to the interest index and insurance fund accounts are made by us in cash. In addition, prior to July 2001, participants were entitled to invest their deferrals in stock fund units that are distributed as shares of our Class A common stock. As of December 31, 2004, there were 2,308,803 outstanding stock fund units under the Old DCP, all of which were vested. The deferred compensation liability in the accompanying consolidated balance sheets was \$166.7 million and \$138.0 million at December 31, 2004 and 2003, respectively.

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

Prior to our initial public offering, all shares held by our current and former employees and consultants, including any shares that such employees and consultants are entitled to receive as distributions with respect to stock fund units in the Old DCP, were subject to transfer restrictions. In connection with our initial public offering, we waived all of these transfer restrictions. As a result, all of these shares, including any shares received as future distributions with respect to stock fund units in the Old DCP, may be sold, subject to applicable securities law requirements. Shortly after our initial public offering, we filed a registration statement on Form S-8 that registered, among other things, the shares of Class A common stock to be distributed in the future with respect to stock fund units in the Old DCP. We entered into agreements with participants in the Old DCP holding stock fund units with 2,280,831 underlying shares of Class A common stock pursuant to which these participants agreed to sell no more than 20% of the shares underlying their current stock fund unit balances during any month over the five months in the period ending December 31, 2004 in exchange for fixed cash payments by us to these participants.

New DCP

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

Pension Liability

Our subsidiaries based in the United Kingdom maintain two defined benefit pension plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm and as required by applicable laws and regulations. Our contributions to these plans are invested and, if these investments do not perform in the future as well as we expect, we will be required to provide additional funding to cover the shortfall. The pension liability in the accompanying consolidated balance sheets was \$27.9 million and \$36.0 million at December 31, 2004 and 2003, respectively. We expect to contribute a total of \$5.8 million to fund our pension plan for the year ended December 31, 2005.

Other Obligations and Commitments

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of December 31, 2004, an aggregate of approximately \$5.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$1.6 million as security for Island's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island.

L.J. Melody previously executed an agreement with the Federal National Mortgage Association, or Fannie Mae, to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and L.J. Melody retains the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$80.4 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$0.9 million. The other 1% is covered in the form of a guarantee to Fannie Mae by L.J. Melody.

We had letters of credit totaling \$6.1 million as of December 31, 2004, excluding letters of credit related to our subsidiaries' outstanding indebtedness and operating leases. Approximately \$5.2 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island described above. The remaining \$0.9 million outstanding letter of credit is the Fannie Mae letter of credit described above. The outstanding letters of credit as of December 31, 2004 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$9.1 million as of December 31, 2004, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae discussed above. Approximately \$4.4 million of the guarantees are related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island purchase agreement expired on the September 15, 2004 and was subsequently extended until March 31, 2005. Currently, renewals, modifications and extensions of such loan may be made without our consent, but the \$1.3 million amount of our guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of December 31, 2004, we had committed \$24.3 million to fund future co-investments. We expect that approximately \$23.5 million of these commitments will be funded during 2005. In addition, to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

Seasonality

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

Inflation

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

New Accounting and Tax Pronouncements

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret

numerous provisions of the Act. As such, we are not in a position to decide on whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. We are currently conducting an evaluation of the effects of the repatriation provisions of the Act and will complete this evaluation by December 31, 2005. We do not expect the Act to have a material impact on our financial position or results of operations.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123—Revised, “Share Based Payment”. The statement establishes the standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. The statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Public companies are required to apply the standard on a modified prospective method. Under this method, a company records compensation expense for all awards it grants after the date it adopts the standard. In addition, public companies are required to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The statement is effective as of the beginning of the first interim or annual period that begins after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Exchange Rates

During the year ended December 31, 2004, approximately 31.6% of our business was transacted in local currencies of foreign countries, the majority of which included the Euro, the British pound sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. 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. As a result, fluctuations in foreign currency exchange rates affect reported amounts of our total assets and liabilities, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the exchange rate in effect on the respective balance sheet dates, and our total revenues and expenses, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the monthly average exchange rate. For example, during 2004 the U.S. dollar dropped against many of the currencies in which we conduct business. During the year ended December 31, 2004, foreign currency translation had a \$68.8 million positive impact on our total revenue and a \$60.2 million negative impact on our total cost of services and operating, administrative and other expenses.

We routinely monitor our exposure to currency exchange rate changes in connection with transactions and sometimes enter into foreign currency exchange forward and option contracts to limit our exposure to such transactions, as appropriate. In the normal course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange forward contracts to mitigate foreign currency exchange exposure resulting from intercompany loans. Prior to 2004, our management historically had not entered into agreements to hedge the risks associated with the translation of foreign currencies into U.S. dollars. On April 6, 2004, we entered into an option agreement to purchase an aggregate notional amount of 8.7 million British pounds sterling for a cost of \$0.6 million, which would have expired on December 29, 2004. On July 2, 2004, we entered into an option agreement to purchase an aggregate notional amount of 18.8 million euros for a cost of \$0.7 million, which also would have expired on December 29, 2004. During October 2004, we sold both of these option agreements and entered into two new option agreements to purchase an aggregate notional amount of 10.2 million British pounds sterling for a cost of \$0.3 million and 20.0 million euros for a cost of \$0.4 million, both of which expired on December 29, 2004. The net impact on our earnings resulting from gains and/or losses on these option agreements has not been material. We apply Statement of Financial Accounting Standards (SFAS) No. 133, “*Accounting for Derivative Instruments and Hedging Activities*,” as amended by SFAS No. 138, “*Accounting for Certain Derivative Instruments and Certain Hedging Activities*,” when accounting for any such

contracts. In all cases, we view derivative financial instruments as a risk management tool and, accordingly, do not engage in any speculative activities with respect to foreign currency. At December 31, 2004, we were not party to any such contracts.

Interest Rates

We manage our interest expense by using a combination of fixed and variable rate debt. Our fixed and variable rate long-term debt at December 31, 2004 consisted of the following:

<u>Year of Maturity</u>	<u>Fixed Rate</u>	<u>One-Month LIBOR + 1.0%</u>	<u>Six-Month LIBOR + 2.0%</u>	<u>Six-Month Yen LIBOR + 3.75%</u>	<u>Six-Month GBP LIBOR - 2%</u>	<u>Total</u>
2005	\$ 16,332	\$138,233	\$ 13,806(2)	\$196	\$3,356	\$171,923
2006	56	—	11,800	390	—	12,246
2007	33	—	11,800	—	—	11,833
2008	20	—	11,800	—	—	11,820
2009	20	—	11,800	—	—	11,820
Thereafter	335,115(1)	—	218,050(3)	—	—	553,165
Total	<u>\$351,576</u>	<u>\$138,233</u>	<u>\$279,056</u>	<u>\$586</u>	<u>\$3,356</u>	<u>\$772,807</u>
Weighted Average Interest Rate	<u>10.5%</u>	<u>3.4%</u>	<u>4.4%</u>	<u>3.8%</u>	<u>3.0%</u>	<u>7.0%</u>

- (1) Primarily includes our 11 ¼% senior subordinated notes and our 9¾% senior notes. In January and February 2005, we purchased \$26.4 million in aggregate principal amount of our 11 ¼% senior subordinated notes in the open market.
- (2) Includes \$11.8 million relating to our senior secured credit facilities and \$2.0 million related to our Westmark senior notes (see Note 11 of our Notes to Consolidated Financial Statements).
- (3) Consists of amounts due under our senior secured credit facilities.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 41 basis points, which would comprise approximately 10% of the weighted average interest rates of our outstanding variable rate debt at December 31, 2004, the net impact would be a decrease of \$1.7 million on pre-tax income and cash provided by operating activities for the year ended December 31, 2004.

Based on dealers' quotes at December 31, 2004, the estimated fair values of our 9¾% senior notes and our 11 ¼% senior subordinated notes were \$148.2 million and \$236.4 million, respectively. Estimated fair values for the term loan under the senior secured credit facilities and the remaining long-term debt are not presented because we believe that they are not materially different from book value, primarily because the majority of this debt is based on variable rates that approximate terms that we believe could be obtained at December 31, 2004.

Historically, we have not entered into agreements with third parties for the purpose of hedging our exposure to changes in interest rates. Although we do not have any current intentions to enter into such agreements in the future, we may do so in connection with our on-going assessment of our interest rate exposure. If we do enter into any such agreements, we would do so for risk management purposes only and not to engage in speculative activities with respect to interest rates. We would apply SFAS No. 133, as amended by SFAS No. 138, when accounting for any such derivatives.

Item 8. Financial Statements and Supplementary Data

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AND FINANCIAL STATEMENT SCHEDULE**

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All other schedules are omitted because they are either not applicable, not required or the information required is included in the Consolidated Financial Statements, including the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CB Richard Ellis Group, Inc.:

We have audited the accompanying consolidated balance sheets of CB Richard Ellis Group, Inc., and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, stockholders' equity, and comprehensive income (loss) for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index to the Consolidated Financial Statements and Financial Statement Schedule at Item 8. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CB Richard Ellis Group, Inc., and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 15, 2005

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

	December 31,	
	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 256,896	\$ 163,881
Restricted cash	9,213	14,899
Receivables, less allowance for doubtful accounts of \$14,811 and \$16,181 at December 31, 2004 and 2003, respectively	394,062	322,416
Warehouse receivable	138,233	230,790
Prepaid expenses	26,586	22,854
Deferred tax assets, net	23,122	57,681
Other current assets	15,583	26,461
Total Current Assets	863,695	838,982
Property and equipment, net	137,703	113,569
Goodwill	821,508	819,558
Other intangible assets, net of accumulated amortization of \$95,373 and \$73,449 at December 31, 2004 and 2003, respectively	113,653	131,731
Deferred compensation assets	102,578	76,389
Investments in and advances to unconsolidated subsidiaries	83,501	68,361
Deferred tax assets, net	78,471	32,179
Other assets, net	70,527	132,712
Total Assets	\$2,271,636	\$2,213,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 185,877	\$ 189,787
Compensation and employee benefits payable	150,721	154,961
Accrued bonus and profit sharing	271,020	200,343
Short-term borrowings:		
Warehouse line of credit	138,233	230,790
Other	21,736	39,347
Total short-term borrowings	159,969	270,137
Current maturities of long-term debt	11,954	11,285
Other current liabilities	29,547	12,991
Total Current Liabilities	809,088	839,504
Long-Term Debt:		
11 ¼% senior subordinated notes, net of unamortized discount of \$2,337 and \$2,827 at December 31, 2004 and 2003, respectively	205,032	226,173
Senior secured term loan	265,250	287,500
9¾% senior notes	130,000	200,000
16% senior notes, net of unamortized discount of \$2,844 at December 31, 2003	—	35,472
Other long-term debt	602	42,275
Total Long-Term Debt	600,884	791,420
Deferred compensation liability	160,281	131,950
Pension liability	27,871	35,998
Other liabilities	107,639	75,024
Total Liabilities	1,705,763	1,873,896
Commitments and contingencies	—	—
Minority interest	5,925	6,656
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 71,031,429 and 7,176,396 shares issued and outstanding at December 31, 2004 and 2003, respectively	710	72
Class B common stock; \$0.01 par value; 100,000,000 shares authorized; 53,409,556 shares issued and outstanding at December 31, 2003; no shares authorized, issued or outstanding at December 31, 2004	—	534
Additional paid-in capital	513,801	359,334
Notes receivable from sale of stock	(433)	(4,680)
Accumulated earnings	66,174	1,449
Accumulated other comprehensive loss	(20,304)	(23,780)
Total Stockholders' Equity	559,948	332,929
Total Liabilities and Stockholders' Equity	\$2,271,636	\$2,213,481

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

CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)

	Year Ended December 31,		
	2004	2003	2002
Revenue	\$ 2,365,096	\$ 1,630,074	\$ 1,170,277
Costs and expenses:			
Cost of services	1,203,765	796,428	547,093
Operating, administrative and other	909,892	678,377	501,798
Depreciation and amortization	54,857	92,622	24,614
Merger-related charges	25,574	36,817	36
Operating income	171,008	25,830	96,736
Equity income from unconsolidated subsidiaries	19,475	14,365	9,326
Interest income	4,264	3,560	3,272
Interest expense	65,418	71,256	60,501
Loss on extinguishment of debt	21,075	13,479	—
Income (loss) before provision (benefit) for income taxes	108,254	(40,980)	48,833
Provision (benefit) for income taxes	43,529	(6,276)	30,106
Net income (loss)	<u>\$ 64,725</u>	<u>\$ (34,704)</u>	<u>\$ 18,727</u>
Basic income (loss) per share	<u>\$ 0.95</u>	<u>\$ (0.68)</u>	<u>\$ 0.45</u>
Weighted average shares outstanding for basic income (loss) per share	<u>67,775,406</u>	<u>50,918,572</u>	<u>41,640,576</u>
Diluted income (loss) per share	<u>\$ 0.91</u>	<u>\$ (0.68)</u>	<u>\$ 0.44</u>
Weighted average shares outstanding for diluted income (loss) per share	<u>71,345,073</u>	<u>50,918,572</u>	<u>42,185,989</u>

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

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

	Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 64,725	\$ (34,704)	\$ 18,727
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	54,857	92,622	24,614
Amortization and write-off of deferred financing costs	11,353	13,276	3,322
Amortization and write-off of long-term debt discount	3,334	2,493	444
Deferred compensation deferrals	24,057	13,715	15,925
Write-off of impaired investments	5,134	—	—
Gain on sale of servicing rights, property held for sale and other assets	(7,974)	(5,321)	(6,287)
Equity income from unconsolidated subsidiaries	(19,475)	(14,365)	(9,326)
Provision for doubtful accounts	2,367	3,436	3,415
Deferred income taxes	15,803	(8,717)	7,605
Increase in receivables	(68,516)	(43,011)	(4,770)
(Increase) decrease in deferred compensation assets	(26,189)	(12,747)	5,743
Decrease (increase) in prepaid expenses and other assets	20,859	(5,154)	(5,096)
(Decrease) increase in accounts payable and accrued expenses	(10,842)	14,448	7,912
Increase in compensation and employee benefits payable and accrued bonus and profit sharing	73,560	42,634	17,541
Decrease (increase) in net income taxes receivable	18,208	(15,197)	3,225
Increase (decrease) in other liabilities	4,661	16,021	(15,203)
Tenant concessions received	13,697	13,338	4,689
Other operating activities, net	2,556	4,512	(2,909)
Net cash provided by operating activities	182,175	77,279	69,571
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of servicing rights and other assets	6,703	3,949	6,378
Proceeds from sale of property held for sale	50,401	—	—
Capital expenditures	(52,953)	(40,299)	(18,955)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(25,142)	(263,683)	(14,811)
Other investing activities, net	(2,328)	1,900	(1,431)
Net cash used in investing activities	(23,319)	(298,133)	(28,819)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolver and swingline credit facility	186,750	152,850	238,000
Repayment of revolver and swingline credit facility	(186,750)	(152,850)	(238,000)
Proceeds from senior secured term loans	—	375,000	—
Repayment of senior secured term loans	(20,450)	(298,475)	(9,351)
Repayment of non-recourse debt related to property held for sale	(41,956)	—	—
Repayment of notes payable	—	(43,000)	—
(Repayment of) proceeds from euro cash pool loan and other loans, net	(16,681)	3,029	(8,205)
Proceeds from 9¾% senior notes	—	200,000	—
Repayment of 9¾% senior notes	(70,000)	—	—
Repayment of 11¼% senior subordinated notes	(21,631)	—	—
Repayment of 16% senior notes	(38,316)	(30,000)	—
Proceeds from issuance of common stock, net	135,000	120,980	180
Proceeds from exercise of stock options	9,643	—	—
Payment of deferred financing fees	(4,683)	(22,707)	(443)
Other financing activities, net	1,708	(1,163)	(19)
Net cash (used in) provided by financing activities	(67,366)	303,664	(17,838)
NET INCREASE IN CASH AND CASH EQUIVALENTS	91,490	82,810	22,914
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	163,881	79,701	57,450
Effect of currency exchange rate changes on cash	1,525	1,370	(663)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	\$ 256,896	\$ 163,881	\$ 79,701
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest, net of amount capitalized	\$ 78,754	\$ 63,718	\$ 52,647
Income taxes, net of refunds	\$ 17,915	\$ 17,783	\$ 19,142

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

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Class A common stock	Class B common stock	Additional paid-in capital	Notes receivable from sale of stock	Accumulated earnings	Accumulated other comprehensive income (loss)		Total
						Minimum pension liability	Foreign currency translation	
Balance at December 31, 2001	\$ 50	350	240,285	(5,884)	17,426		296	\$252,523
Net income	—	—	—	—	18,727	—	—	18,727
Issuance of Class A common stock	—	—	460	(180)	—	—	—	280
Net cancellation of deferred compensation stock fund units	—	—	(427)	—	—	—	—	(427)
Net collection on notes receivable from sale of stock	—	—	—	1,264	—	—	—	1,264
Purchase of common stock	(3)	—	(1,729)	—	—	—	—	(1,732)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	(17,039)	—	(17,039)
Foreign currency translation loss	—	—	—	—	—	—	(2,255)	(2,255)
Balance at December 31, 2002	\$ 47	\$ 350	\$238,589	\$(4,800)	\$ 36,153	\$(17,039)	\$ (1,959)	\$251,341
Net loss	—	—	—	—	(34,704)	—	—	(34,704)
Issuance of Class A common stock	26	—	14,681	—	—	—	—	14,707
Issuance of Class B common stock	—	184	106,169	—	—	—	—	106,353
Issuance of deferred compensation stock fund units, net of cancellations	—	—	195	—	—	—	—	195
Net collection on notes receivable from sale of stock	—	—	—	120	—	—	—	120
Purchase of common stock	(1)	—	(459)	—	—	—	—	(460)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	1,930	—	1,930
Compensation expense for stock options	—	—	159	—	—	—	—	159
Foreign currency translation loss	—	—	—	—	—	—	(6,712)	(6,712)
Balance at December 31, 2003	\$ 72	\$ 534	\$359,334	\$(4,680)	\$ 1,449	\$(15,109)	\$ (8,671)	\$332,929
Net income	—	—	—	—	64,725	—	—	64,725
Conversion of Class B common stock to Class A common stock	534	(534)	—	—	—	—	—	—
Proceeds from initial public offering	77	—	134,923	—	—	—	—	135,000
Issuance of Class A common stock	—	—	251	—	—	—	—	251
Net cancellation and distribution of deferred compensation stock fund units	6	—	(467)	—	—	—	—	(461)
Net collection on notes receivable from sale of stock	—	—	—	4,247	—	—	—	4,247
Purchase of common stock	—	—	(137)	—	—	—	—	(137)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	8,886	—	8,886
Stock options exercised (including tax benefit)	21	—	18,753	—	—	—	—	18,774
Compensation expense for stock options	—	—	1,144	—	—	—	—	1,144
Foreign currency translation loss	—	—	—	—	—	—	(5,410)	(5,410)
Balance at December 31, 2004	<u>\$710</u>	<u>—</u>	<u>\$513,801</u>	<u>\$ (433)</u>	<u>\$ 66,174</u>	<u>\$ (6,223)</u>	<u>\$(14,081)</u>	<u>\$559,948</u>

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

CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income (loss)	\$64,725	\$(34,704)	\$ 18,727
Other comprehensive income (loss):			
Foreign currency translation loss	(5,410)	(6,712)	(2,255)
Minimum pension liability adjustment, net of tax	8,886	1,930	(17,039)
Total other comprehensive income (loss)	<u>3,476</u>	<u>(4,782)</u>	<u>(19,294)</u>
Comprehensive income (loss)	<u>\$68,201</u>	<u>\$(39,486)</u>	<u>\$ (567)</u>

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

CB Richard Ellis Group, Inc. (formerly known as CBRE Holding, Inc.), a Delaware corporation, was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international commercial real estate services firm. Prior to July 20, 2001, we were a wholly owned subsidiary of Blum Strategic Partners, L.P. (Blum Strategic), formerly known as RCBA Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. 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 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately \$290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately \$4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004 and July 14, 2004. Lastly, in December 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders.

We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets globally under the "CB Richard Ellis" brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our majority-owned subsidiaries. The equity attributable to minority shareholders' interests in subsidiaries is shown separately in the accompanying consolidated balance sheets. All significant inter-company accounts and transactions have been eliminated in consolidation.

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

Use of Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

assumptions that affect the reported amounts in the financial statements. Actual results may differ from these estimates. Management believes that these estimates provide a reasonable basis for the fair presentation of our financial condition and results of operations.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash and highly liquid investments with an original maturity of less than three months. We control certain cash and cash equivalents as an agent for our investment and property management clients. These amounts are not included in the accompanying consolidated balance sheets (See Note 16).

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation, or in the case of capitalized leases, at the present value of the future minimum lease payments. Depreciation and amortization of property and equipment is computed primarily using the straight-line method over estimated useful lives ranging up to ten years. Leasehold improvements are amortized over the term of their associated leases, excluding options to renew, since such leases generally do not carry prohibitive penalties for non-renewal. We capitalize expenditures that materially increase the life of our assets and expense the costs of maintenance and repairs.

We review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that such assets are considered to be impaired, the impairment is recognized in the period the changes occur and represents the amount by which the carrying value exceeds the fair value of the asset.

Computer Software Costs

Certain costs related to the development or purchases of internal-use software are capitalized in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Internal computer software costs that are incurred in the preliminary project stage are expensed as incurred. Direct consulting costs as well as payroll and related costs, which are incurred during the development stage of a project are capitalized and amortized over a three-year period when placed into production.

Goodwill and Other Intangible Assets

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Deferred Financing Costs

Costs incurred in connection with financing activities are deferred and amortized using the straight-line method over the terms of the related debt agreements ranging up to ten years. Amortization of these costs is charged to interest expense in the accompanying consolidated statements of operations. In the third quarter of 2003, in connection with the Insignia Acquisition, we entered into an amended and restated credit facility and wrote off \$6.8 million of unamortized deferred financing costs associated with our prior credit facility. In the fourth quarter of 2003, we wrote off \$1.8 million of unamortized deferred financing costs associated with the \$20.0 million and \$10.0 million redemptions of our 16% senior notes on October 27, 2003 and December 29, 2003, respectively. During 2004, we wrote off \$0.6 million, \$3.1 million and \$2.2 million of unamortized deferred financing costs associated with the \$21.6 million repurchase of our 11 ¼% senior subordinated notes in the open market, and the \$70.0 million and \$38.3 million redemptions of our 9¾% senior notes and 16% senior notes, respectively. Total deferred financing costs, net of accumulated amortization, included in other assets in the accompanying consolidated balance sheets were \$23.2 million and \$29.9 million, as of December 31, 2004 and 2003, respectively.

Revenue Recognition

We record real estate commissions on sales generally upon close of escrow or transfer of title, except when future contingencies exist. Real estate commissions on leases are generally recorded as income once we satisfy all obligations under the commission agreement. Terms and conditions of a commission agreement may include, but are not limited to, execution of a signed lease agreement and future contingencies including tenant occupancy, payment of a deposit or payment of a first month’s rent (or a combination thereof). As some of these conditions are outside of our control and are often not clearly defined, judgment must be exercised in determining when such required events have occurred in order to recognize revenue.

A typical commission agreement provides that we earn a portion of the lease commission upon the execution of the lease agreement by the tenant, while the remaining portion(s) of the lease commission is earned at a later date, usually upon tenant occupancy. The existence of any significant future contingencies, such as tenant occupancy, results in the delay of recognition of corresponding revenue until such contingencies are satisfied. For example, if we do not earn all or a portion of the lease commission until the tenant pays its first month’s rent, and the lease agreement provides the tenant with a free rent period, we delay revenue recognition until rent is paid by the tenant.

Investment management and property management fees are generally based upon percentages of the revenue or profit generated by the entities managed and are recognized when earned under the provisions of the related management agreements. Our Global Investment Management segment earns performance-based incentive fees with regard to many of its investments. Such revenue is recognized at the end of the measurement periods when the conditions of the applicable incentive fee arrangements have been satisfied. With many of these investments,

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

our Global Investment Management team has participation interests in such incentive fees. These participation interests are accrued for based upon the probability of such performance-based incentive fees being earned.

Appraisal fees are recorded after services have been rendered. Loan origination fees are recognized at the time a loan closes and we have no significant remaining obligations for performance in connection with the transaction, while loan servicing fees are recorded to revenue as monthly principal and interest payments are collected from mortgagors. Other commissions, consulting fees and referral fees are recorded as income at the time the related services have been performed, unless significant future contingencies exist.

In establishing the appropriate provisions for trade receivables, we make assumptions with respect to future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivables balances. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are more than 180 days overdue are fully provided for. Historically, our credit losses have been insignificant. However, estimating losses requires significant judgment, and conditions may change or new information may become known after any periodic evaluation. As a result, actual credit losses may differ from our estimates.

Business Promotion and Advertising Costs

The costs of business promotion and advertising are expensed as incurred in accordance with Statement of Position 93-7, "Reporting on Advertising Costs." Business promotion and advertising costs of \$31.1 million, \$23.5 million, and \$16.8 million were included in operating, administrative and other expenses for the years ended December 31, 2004, 2003 and 2002, respectively.

Foreign Currencies

The financial statements of subsidiaries located outside the United States (U.S.) are generally measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The resulting translation adjustments are included in the accumulated other comprehensive loss component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the results of operations. The aggregate transaction gains and losses included in the accompanying consolidated statements of operations are a \$3.2 million gain, a \$9.8 million gain and a \$6.4 million gain for the years ended December 31, 2004, 2003 and 2002, respectively.

Derivative Financial Instruments

In the normal course of business, we sometimes utilize derivative financial instruments in the form of foreign currency exchange forward contracts to mitigate foreign currency exchange exposure resulting from inter-company loans. In addition, beginning in 2004, our management began entering into agreements to hedge the risks associated with the translation of foreign currencies into U.S. dollars by utilizing foreign currency exchange option contracts. We apply SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," when accounting for any such contracts. SFAS No. 133, as amended by SFAS No. 138, requires us to recognize all qualifying derivative instruments as assets or liabilities on our balance sheet and measure them at fair value. The statement requires that changes in the fair value of derivatives be recognized in earnings unless specific hedge accounting criteria are met. The net impact on our earnings resulting from gains and/or losses on foreign currency exchange forward and option contracts has not been material. As of December 31, 2004 and 2003, we were not party to any such contracts.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We also enter into loan commitments that relate to the origination or acquisition of commercial mortgage loans that will be held for resale. SFAS No. 133, as amended by SFAS No. 138, requires that these commitments be recorded at their relative fair values as derivatives. The net impact on our financial position or earnings resulting from these derivative contracts has not been significant.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Accumulated other comprehensive loss consists of foreign currency translation adjustments and net minimum pension liability adjustments. Foreign currency translation adjustments exclude income tax expense (benefit) given that earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. The income tax benefit associated with the minimum pension liability adjustments was \$2.7 million, \$6.5 million and \$7.3 million as of December 31, 2004, 2003 and 2002 respectively.

Accounting for Transfers and Servicing

We follow SFAS No. 140, “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*” in accounting for loan sales and acquisition of servicing rights. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under the approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred at fair value. Servicing assets are amortized over the period of estimated servicing income with a write-off required when control is surrendered. When we sell commercial mortgage loans, we allocate the acquisition costs of the mortgage loan between the security sold and the retained loan servicing right, based upon their relative fair values. The reported gain is the difference between the cash proceeds from the sale of the mortgage loans and its allocated costs. The cost allocated to the loan servicing rights are included in other intangible assets in the accompanying consolidated balance sheets. Our recording of loan servicing rights at their fair value resulted in gains, which have been reflected in the accompanying consolidated statements of operations. The amount of loan servicing rights recognized during the years ended December 31, 2004 and 2003 was as follows (dollars in thousands):

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Beginning balance, loan servicing rights	\$13,882	\$14,100
Loan servicing rights—contractual payments on previous acquisitions	59	42
Loan servicing rights recognized under SFAS No. 140	2,546	1,760
Loan servicing rights sold	(199)	(259)
Amortization expense	(2,017)	(1,761)
Ending balance, loan servicing rights	<u>\$14,271</u>	<u>\$13,882</u>

We periodically evaluate our servicing asset for impairment on a portfolio basis as all of these assets relate to commercial mortgage loans. Management estimates that the carrying amount approximates the fair value of the servicing asset based upon a discounted cash flow model of net servicing fees and assuming a 11% attrition rate and a 15% discount rate. The overall risk characteristics of commercial mortgage loans are such that the occurrence of material adverse fluctuations in the underlying assumptions used to calculate the related fair values are unlikely.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting for Broker Draws

As part of our recruitment efforts relative to new U.S. brokers, we offer a transitional broker draw arrangement. Our broker draw arrangements generally last until such time as a broker's pipeline of business is sufficient to allow him or her to earn sustainable commissions. This program is intended to provide the broker with a minimal amount of cash flow to allow adequate time for his or her training as well as time for him or her to develop business relationships. Similar to traditional salaries, the broker draws are paid irrespective of the actual revenues generated by the broker. Often these broker draws represent the only form of compensation received by the broker. Furthermore, it is not our general policy to pursue collection of unearned broker draws paid under this arrangement. As a result, we have concluded that broker draws are economically equivalent to salaries paid and accordingly charge them to compensation as incurred. The broker is also entitled to earn a commission on completed revenue transactions. This amount is calculated as the commission that would have been payable under our full commission program, less any amounts previously paid to the broker in the form of a draw.

Stock-Based Compensation

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. No stock-based employee compensation cost is reflected in net income for the year ended December 31, 2002, as all options granted during that period had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*" prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123.*" Awards under our stock-based compensation plans vest over four or five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net income (loss) for the years ended December 31, 2004 and 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

In accordance with SFAS No. 123, we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility and the expected life of the options. As our Class A common stock was not freely tradeable on a national securities exchange or an over-the-counter market prior to the completion of the IPO, an effectively zero percent volatility was utilized for all periods ending prior to the IPO. The dividend yield is excluded from the calculation, as it is our present intention to retain all earnings.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income (loss) as reported	\$64,725	\$(34,704)	\$18,727
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	698	98	—
Deduct: Total stock-based employee compensation expense determined under the Black-Scholes method for all awards, net of related tax effect	<u>(1,207)</u>	<u>(648)</u>	<u>(523)</u>
Pro forma net income (loss)	<u>\$64,216</u>	<u>\$(35,254)</u>	<u>\$18,204</u>
Basic EPS:			
As reported	<u>\$ 0.95</u>	<u>\$ (0.68)</u>	<u>\$ 0.45</u>
Pro forma	<u>\$ 0.95</u>	<u>\$ (0.69)</u>	<u>\$ 0.44</u>
Diluted EPS:			
As reported	<u>\$ 0.91</u>	<u>\$ (0.68)</u>	<u>\$ 0.44</u>
Pro forma	<u>\$ 0.90</u>	<u>\$ (0.69)</u>	<u>\$ 0.43</u>

The weighted average fair value of options granted by us was \$8.03, \$0.58 and \$0.84 for the years ended December 31, 2004, 2003 and 2002, respectively. The fair value of each option grant is estimated on the date of grant utilizing the following weighted average assumptions:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Risk-free interest rate	3.12%	3.02%	4.06%
Expected volatility	37.33%	0.00%	0.00%
Expected life	4 years	5 years	5 years

Option valuation models require the input of subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the 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.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share further assumes the dilutive effect of stock options, stock warrants and contingently issuable shares. Contingently issuable shares represent unvested stock fund units in the deferred compensation plan. In accordance with SFAS No. 128, "Earnings Per Share" these shares are included in the dilutive earnings per share calculation under the treasury stock method (see Note 15).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, “*Accounting for Income Taxes*.” Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured by applying enacted tax rates and laws and are released to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Loss contingencies resulting from tax audits or certain tax positions are accrued when the potential loss can be reasonably estimated and where occurrence is probable.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 – Revised, “*Share Based Payment*”. The statement establishes the standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. The statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Public companies are required to apply the standard on a modified prospective method. Under this method, a company records compensation expense for all awards it grants after the date it adopts the standard. In addition, public companies are required to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The statement is effective as of the beginning of the first interim or annual period that begins after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

Reclassifications

Certain reclassifications, which do not have an effect on net income or equity, have been made to the 2003 and 2002 financial statements to conform with the 2004 presentation.

3. Insignia Acquisition

On July 23, 2003, pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 28, 2003 (the Insignia Acquisition Agreement), by and among us, CBRE, Apple Acquisition Corp. (Apple Acquisition), a Delaware corporation and wholly owned subsidiary of CBRE, and Insignia Financial Group, Inc. (Insignia), Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the Insignia Acquisition and at the effective time of the Insignia Acquisition became a wholly owned subsidiary of CBRE.

In conjunction with and immediately prior to the Insignia Acquisition, Island Fund I LLC (Island), a Delaware limited liability company, which is affiliated with Andrew L. Farkas (Insignia’s former Chairman and Chief Executive Officer) and some of Insignia’s other former officers, completed the purchase of specified real estate investment assets of Insignia, pursuant to a Purchase Agreement, dated May 28, 2003 (the Island Purchase Agreement), by and among Insignia, us, CBRE, Apple Acquisition and Island. A number of the real estate investment assets that were sold to Island required the consent of one or more third parties in order to transfer such assets. Some of these third party consents were not obtained prior to or since the closing of the Insignia Acquisition. As a result, we continue to hold these real estate investment assets pending the receipt of these third party consents. While we hold these assets, we have generally agreed to provide Island with the economic

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

benefits from these assets and Island generally has agreed to indemnify us with respect to any losses incurred in connection with continuing to hold these assets (See note 12 to the consolidated financial statements).

Pursuant to the terms of the Insignia Acquisition Agreement, (1) each issued and outstanding share of Insignia Common Stock (other than treasury shares), par value \$0.01 per share, was converted into the right to receive \$11.156 in cash, without interest (the Insignia Common Stock Merger Consideration), (2) each issued and outstanding share of Insignia's Series A Preferred Stock, par value \$0.01 per share, and Series B Preferred Stock, par value \$0.01 per share, was converted into the right to receive \$100.00 per share, plus accrued and unpaid dividends, (3) all outstanding warrants and options to acquire Insignia common stock other than as described below, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of the Insignia Common Stock Merger Consideration over the per share exercise price of the option or warrant, multiplied by the number of shares of Insignia Common Stock subject to the option or warrant less any applicable withholding taxes and (4) outstanding options to purchase Insignia Common Stock granted pursuant to Insignia's 1998 Stock Investment Plan, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of (a) the higher of (x) the Insignia Common Stock Merger Consideration, or (y) the highest final sale price per share of the Insignia Common Stock as reported on the New York Stock Exchange (NYSE) at any time during the 60-day period preceding the closing of the Insignia Acquisition (which was \$11.20), over (b) the exercise price of the options, multiplied by the number of shares of Insignia Common Stock subject to the options, less any applicable withholding taxes. Following the Insignia Acquisition, the Insignia Common Stock was delisted from the NYSE and deregistered under the Securities Exchange Act of 1934.

The funding to complete the Insignia Acquisition, as well as the refinancing of substantially all of the outstanding indebtedness of Insignia, was obtained through (a) the sale of 6,587,135 shares of our Class B Common Stock, par value \$0.01 per share, to Blum Strategic, a Delaware limited partnership, Blum Strategic Partners II, L.P., a Delaware limited partnership and Blum Strategic Partners II GmbH & Co. KG, a German limited partnership, for an aggregate cash purchase price of \$105,394,160; (b) the sale of 227,865 shares of our Class A Common Stock, par value \$.01 per share, to DLJ Investment Partners, L.P., a Delaware limited partnership, DLJ Investment Partners II, L.P., a Delaware limited partnership and DLJIP II Holdings, L.P., a Delaware limited partnership, for an aggregate cash purchase price of \$3,645,840; (c) the sale of 625,000 shares of our Class A Common Stock to California Public Employees' Retirement System (CalPERS) for an aggregate cash purchase price of \$10,000,000; (d) the sale of 60,000 shares of our Class B Common Stock to Frederic V. Malek, a director of our company, for an aggregate cash purchase price of \$960,000; (e) the release from escrow of the net proceeds from the offering by CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE that merged with and into CBRE in connection with the Insignia Acquisition, of \$200.0 million of the 9¾% Senior Notes due May 15, 2010 (see Note 11), issued and sold by CBRE Escrow on May 22, 2003; (f) \$75.0 million of term loan borrowings under the Amended and Restated Credit Agreement (see Note 11), dated as of May 22, 2003, by and among CBRE, Credit Suisse First Boston (CSFB) as Administrative Agent and Collateral Agent, the other lenders named in the credit agreement, us and the guarantors named in the credit agreement and (g) \$36,870,230 of cash proceeds from the completion of the sale to Island.

The aggregate purchase price for the acquisition of Insignia was approximately \$329.5 million, which includes: (1) \$267.9 million in cash paid for shares of Insignia's outstanding common stock, at \$11.156 per share, (2) \$38.2 million in cash paid for Insignia's outstanding Series A preferred stock and Series B preferred stock at \$100.00 per share plus accrued and unpaid dividends, (3) cash payments of \$7.9 million to holders of Insignia's vested and unvested warrants and options and (4) \$15.5 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Purchase accounting adjustments related to the Insignia Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, July 23, 2003. The final valuation of the net assets acquired was completed during 2004 and did not result in any significant adjustments when compared to the preliminary valuation, other than those noted below.

During the year ended December 31, 2004, we made the following significant adjustments to goodwill:

- In the first quarter of 2004, we assigned a \$6.6 million estimated fair value to a broker draw asset acquired from Insignia. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia Acquisition and, accordingly, we are amortizing it on a straight-line basis, which best reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. The allocation of purchase price to the broker draw asset, net of related tax impact, resulted in a \$3.8 million decrease in goodwill and a related \$2.9 million decrease in net income during the year ended December 31, 2004, which includes a \$0.8 million first quarter 2004 adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003.
- During the year ended December 31, 2004, we recorded a \$14.2 million increase to goodwill due to an increase in liabilities primarily related to additional lease termination costs, contract termination costs and costs associated with anticipated legal settlements. All such adjustments were recorded in accordance with the requirements of Emerging Issues Task Force (EITF) Issue No. 95-3, "*Recognition of Liabilities in Connection with a Purchase Business Combination.*" As of the consummation date of the acquisition of Insignia, our management began to assess and formulate a plan to close certain Insignia locations. Due to the size of this acquisition and the dispersed nature of Insignia's operations, a significant amount of time and effort was required to finalize plans with respect to closures, analyze the provisions of contracts to be terminated and estimate the total exit costs. The adjustment during the year ended December 31, 2004 represents a change in estimate as we completed our assessments and finalized our plans with respect to certain of the locations.
- In the first quarter of 2004, we recorded a \$4.2 million increase to goodwill related to the sale of certain assets acquired in connection with the Insignia Acquisition. Of this amount, \$3.7 million represented a receivable due from a buyer, which was collected in the second quarter of 2004. During the second and third quarter of 2004, we received additional cash for the sale of such assets as well as finalized the fair value assigned to such assets in the purchase price allocation. This resulted in an overall increase to goodwill of approximately \$2.9 million, which reflects the sale of assets at an amount less than the value assigned in the preliminary purchase price allocation. As no event occurred during the period from the acquisition date to the sale date that would have impacted the value of these assets, our management concluded that the amount at which these assets were ultimately sold represents the best estimate of the fair value of these assets at the date of the Insignia Acquisition.
- During the second quarter of 2004, we finalized the fair value of liabilities assumed relating to annuities due to former equity partners of Richard Ellis Group Limited that are payable by Insignia until the times of their deaths. Our valuations of these annuities was based in part on a third-party valuation and resulted in a \$4.2 million increase in goodwill in 2004.
- During the year ended December 31, 2004, we recorded a reduction of \$22.7 million to goodwill related to the deferred tax impact of all purchase accounting adjustments recorded in 2004, excluding the deferred tax impact previously mentioned related to the broker draw asset. This net reduction included the reversal of a \$27.0 million deferred tax asset valuation allowance that had previously been recorded and related to net operating losses (see Note 13).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- During the fourth quarter of 2004, we recorded an adjustment of \$4.9 million for certain pre-acquisition contingencies related to the anticipated outcome of an audit of a 1998 U.K. Insignia tax return.

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and Insignia redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we have accrued certain liabilities in accordance with EITF Issue No. 95-3, “*Recognition of Liabilities in Connection with a Purchase Business Combination.*” These liabilities assumed in connection with the Insignia Acquisition consist of the following (dollars in thousands):

	<u>2003 Charge to Goodwill</u>	<u>2004 Adjustment to Goodwill</u>	<u>Utilized to Date</u>	<u>To be Utilized</u>
Severance	\$30,706	\$ (19)	\$(25,208)	\$ 5,479
Lease termination costs	28,922	8,923	(13,868)	23,977
Change of control payments	10,451	—	(10,451)	—
Costs associated with exiting contracts	8,921	1,519	(9,045)	1,395
Legal settlements anticipated	8,739	3,770	(3,224)	9,285
	<u>\$87,739</u>	<u>\$14,193</u>	<u>\$(61,796)</u>	<u>\$40,136</u>

The liability for severance covers approximately 450 employees with the bulk of the terminations occurring in the U.S. The amount unpaid as of December 31, 2004 primarily represents future payments required per severance agreements for the top six former senior executives of Insignia. These amounts will be paid as required by their severance agreements up through their expiration date of December 31, 2005. All other outstanding liabilities for severance are expected to be paid in 2005. We identified approximately 50 redundant facilities consisting of both sales and corporate offices. A total accrual for lease termination costs of \$37.8 million was established for office closures, the majority of which were located in the U.S. The liability for lease termination costs will be paid over the remaining contract periods through 2014. The change of control payments represented amounts paid to the top six former senior executives of Insignia as a direct result of the Insignia Acquisition as stipulated in their employment contracts. In connection with the Insignia Acquisition, we incurred costs associated with the termination of contracts that Insignia entered into prior to the Insignia Acquisition. We expect to pay all remaining costs relating to exiting these contracts by June 30, 2006. We have accrued approximately \$12.5 million to cover our exposure in various lawsuits involving Insignia that were pending prior to the Insignia Acquisition. These liabilities will be paid as each case is settled.

4. Basis of Preparation

The accompanying consolidated balance sheets as of December 31, 2004 and 2003, and the consolidated statements of operations, cash flows and stockholders’ equity for the years ended December 31, 2004 and 2003 include the consolidated financial statements of Insignia from July 23, 2003, the date of the Insignia Acquisition. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our consolidated financial statements prior to the Insignia Acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Unaudited pro forma results, assuming the Insignia Acquisition had occurred as of January 1, 2003 and 2002 for purposes of the 2003 and 2002 pro forma disclosures, respectively, are presented below. These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as increased amortization expense as a result of intangible assets acquired in the Insignia Acquisition as well as higher interest expense as a result of debt incurred to finance the Insignia Acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the Insignia Acquisition occurred on January 1, 2003 or 2002, respectively and may not be indicative of future operating results (dollars in thousands, except share data):

	Year Ended December 31,	
	2003	2002
	(Unaudited)	
Revenue	\$ 1,948,827	\$ 1,744,162
Operating income	17,871	59,380
Net loss	(43,923)	(20,443)
Basic and diluted loss per share	(0.70)	(0.33)
Weighted average shares outstanding for basic and diluted loss per share	62,478,565	62,425,796

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-K and include all information and footnotes required for annual financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized shares of Class A common stock to 325,000,000 and the authorized shares of Class B common stock to 100,000,000. Also, on May 4, 2004, we effected a three-for-one split of our outstanding Class A common stock and Class B common stock, which split was effected by a stock dividend. In addition, on June 7, 2004, we effected a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock. The applicable share and per share data for all periods included herein have been restated to give effect to these stock splits. In connection with the completion of the IPO, all outstanding shares of Class B common stock were converted into an equal number of shares of Class A common stock. On June 16, 2004, we amended our Certificate of Incorporation to eliminate the authorized shares of Class B common stock.

5. Restricted Cash

Included in the accompanying consolidated balance sheets as of December 31, 2004 and 2003, is restricted cash of \$9.2 million and \$14.9 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the U.K. The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Property and Equipment

Property and equipment consists of the following (dollars in thousands):

	Useful Lives	December 31,	
		2004	2003
Computer hardware and software	3 years	\$ 125,753	\$ 102,620
Furniture and equipment	5 years	70,919	59,537
Leasehold improvements	1-10 years	69,125	48,741
Equipment under capital leases	1-10 years	12,526	12,820
		<u>278,323</u>	<u>223,718</u>
Accumulated depreciation		<u>(140,620)</u>	<u>(110,149)</u>
Property and equipment, net		<u>\$ 137,703</u>	<u>\$ 113,569</u>

Depreciation expense was \$33.7 million for the year ended December 31, 2004, \$28.3 million for the year ended December 31, 2003, and \$20.8 million for the year ended December 31, 2002.

7. Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, “*Goodwill and Other Intangible Assets.*” Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite useful lives are no longer amortized but are subject to impairment tests on an annual basis, at a minimum, or whenever events or circumstances occur indicating that those assets might be impaired.

The purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. During 2004, we finalized the fair value of all assets acquired and liabilities assumed as of July 23, 2003, the effective date of the Insignia Acquisition (See Note 3 for additional information). The following table summarizes the goodwill allocated to our operating segments in connection with the Insignia Acquisition as well as other changes in the carrying amount of goodwill for the years ended December 31, 2004 and 2003 (dollars in thousands):

	Americas	EMEA	Asia Pacific	Global Investment Management	Total
Balance at December 31, 2002	\$456,556	\$ 84,028	\$2,896	\$33,657	\$577,137
Purchase accounting adjustments related to acquisitions	<u>130,771</u>	<u>111,043</u>	<u>607</u>	<u>—</u>	<u>242,421</u>
Balance at December 31, 2003	587,327	195,071	3,503	33,657	819,558
Purchase accounting adjustments related to acquisitions	<u>(9,017)</u>	<u>7,089</u>	<u>3,878</u>	<u>—</u>	<u>1,950</u>
Balance at December 31, 2004	<u>\$578,310</u>	<u>\$202,160</u>	<u>\$7,381</u>	<u>\$33,657</u>	<u>\$821,508</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other intangible assets totaled \$113.7 million and \$131.7 million, net of accumulated amortization of \$98.9 million and \$73.5 million, as of December 31, 2004 and 2003, respectively, and are comprised of the following (dollars in thousands):

	December 31,			
	2004		2003	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Unamortizable intangible assets				
Trademarks	\$ 63,700		\$ 63,700	
Trade name	19,826		19,826	
	<u>\$ 83,526</u>		<u>\$ 83,526</u>	
Amortizable intangible assets				
Backlog	\$ 72,149	\$(72,149)	\$ 72,503	\$(59,108)
Management contracts	27,486	(14,756)	25,649	(9,708)
Loan servicing rights	20,057	(5,786)	17,694	(3,812)
Other	5,808	(2,682)	5,808	(821)
	<u>\$125,500</u>	<u>\$(95,373)</u>	<u>\$121,654</u>	<u>\$(73,449)</u>
Total intangible assets	<u>\$209,026</u>	<u>\$(95,373)</u>	<u>\$205,180</u>	<u>\$(73,449)</u>

In accordance with SFAS No. 141, “*Business Combinations*,” trademarks of \$63.7 million were separately identified as a result of the 2001 Merger. As a result of the Insignia Acquisition, a \$19.8 million trade name was separately identified, which represents the Richard Ellis trade name in the U.K. that was owned by Insignia prior to the Insignia Acquisition. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

Backlog represents the fair value of Insignia’s net revenue backlog as of July 23, 2003, which was acquired as part of the Insignia Acquisition. The backlog consists of the net commissions receivable on Insignia’s revenue producing transactions, which were at various stages of completion prior to the Insignia Acquisition. This intangible asset has been amortized as cash has been received or upon final closing of these pending transactions. As of December 31, 2004, the backlog was fully amortized.

Management contracts are primarily comprised of property management contracts in the U.S., the U.K., France and other European operations, as well as valuation services and fund management contracts in the U.K. These management contracts are being amortized over estimated useful lives of up to ten years.

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 represent other intangible assets acquired as a result of the Insignia Acquisition, including an intangible asset recognized for other non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France. These other intangible assets are being amortized over estimated useful lives of up to 20 years.

Amortization expense related to intangible assets was \$21.2 million for the year ended December 31, 2004, \$64.3 million for the year ended December 31, 2003 and \$3.8 million for the year ended December 31, 2002. The estimated annual amortization expense for each of the years ended December 31, 2005 through December 31, 2009 approximates \$6.7 million, \$5.1 million, \$4.2 million, \$3.5 million, and \$2.5 million, respectively.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Investments in and Advances to Unconsolidated Subsidiaries

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting and as of December 31, 2004 and 2003 include the following (dollars in thousands):

	Interest	December 31,	
		2004	2003
Global Innovation Partners, L.L.C.	4.9%	\$22,027	\$14,037
CB Commercial/Whittier Partners, L.P.	50.0%	9,232	8,590
CB Richard Ellis Strategic Partners, L.P.	2.9%	8,399	10,353
CB Richard Ellis Strategic Partners II, L.P.	3.4%	6,078	7,322
Ikoma CB Richard Ellis KK	22.8%	5,889	4,973
CBRE Technical Services	49.9%	3,796	2,553
CB Residential Management KK	42.5%	3,044	—
Glades Plaza, L.P.	20.0%	2,787	2,451
Miroir Holding Sarl	7.5%	2,463	—
CB Richard Ellis Realty Trust	4.5%	2,183	—
KB Opportunity Investors	45.0%	—	1,723
CB Richard Ellis/Pittsburgh, L.P.	50.0%	847	1,221
Other	*	16,756	15,138
Total		<u>\$83,501</u>	<u>\$68,361</u>

* Various interests with varying ownership rates.

Combined condensed financial information for the entities accounted for using the equity method is as follows (dollars in thousands):

Condensed Balance Sheets Information:

	December 31,	
	2004	2003
Current assets	\$ 210,374	\$ 208,743
Non current assets	\$2,426,286	\$2,040,138
Current liabilities	\$ 313,941	\$ 154,778
Non current liabilities	\$ 906,246	\$ 969,993
Minority interest	\$ 15,406	\$ 4,600

Condensed Statements of Operations Information:

	Year Ended December 31,		
	2004	2003	2002
Net revenue	\$568,604	\$450,542	\$349,121
Operating income	\$113,820	\$111,585	\$ 78,171
Net income	\$260,702	\$174,629	\$ 81,498

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 of \$27.6 million, \$21.6 million and \$22.4 million during the years ended December 31, 2004, 2003 and 2002, respectively.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C. (CBRE Investors), entered into a joint venture, Global Innovation Partners, with CalPERS. This joint venture targets real estate and private equity investments and expected opportunities created by the convergence of technology and real estate. The managing member of the joint venture is 50% owned by one of our subsidiaries. In connection with formation of the joint venture, CBRE Investors, CalPERS and some of our employees entered into an aggregate of \$526.0 million of capital commitments to Global Innovations Partners, of which CalPERS committed an aggregate of \$500.0 million.

9. Other Assets

The following table summarizes the items included in other assets (dollars in thousands):

	December 31,	
	2004	2003
Deferred financing costs, net	\$23,228	\$ 29,898
Employee loans (1)	19,613	17,622
Cost investments	11,471	7,096
Deposits	6,051	4,621
Notes receivable	5,157	5,640
Property investments held pursuant to the Island Purchase Agreement (2)	1,827	7,457
Long-term trade receivables, net	1,689	6,542
Property held for sale	—	50,615
Miscellaneous	1,491	3,221
Total	\$70,527	\$132,712

(1) See Note 21 for additional information.

(2) Represents property investments held for the benefit of Island Fund pursuant to the Island Purchase Agreement pending the receipt of third party consents (see Note 3 for additional information).

10. Employee Benefit Plans

Stock Incentive Plans and Warrants.

2001 Stock Incentive Plan. Our 2001 stock incentive plan was adopted by our board of directors and approved by our stockholders on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004, in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares remain available for issuance under the 2001 stock incentive plan. However, as of December 31, 2004, outstanding stock awards granted under the 2001 stock incentive plan to acquire 5,177,533 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. 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.

In connection with the 2001 Merger, we offered and sold shares of our Class A common stock to certain of our employees that were designated by our board of directors in consultation with Ray Wirta, our Chief

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Executive Officer, and Brett White, our President. If each of these designated employees subscribed for a specified number of shares that was determined by our board of directors, they were then entitled to receive a grant of options to acquire our Class A common stock. As part of the 2001 Merger, we issued and sold 1,172,904 shares of our Class A common stock and granted 4,213,045 options to acquire our Class A common stock at an exercise price of \$5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending on July 20, 2006.

On September 16, 2003, we issued to employees 2,427,714 options to acquire our Class A common stock at an exercise price of \$5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending September 16, 2008.

Since the 2001 Merger, there have been instances where employees have forfeited their options as a result of the termination of their employment with our company. We have generally issued individual grants to replacement hires made as well as to retain certain key employees. Additionally, individual grants of options and issuances and sales of shares of Class A common stock have been made from time to time to key new hires. As of December 31, 2004, a total of 245,958 shares of our Class A common stock had been issued and sold and 861,345 options to acquire our Class A common stock had been granted to individuals under the instances described above since the 2001 Merger. These options have exercise prices of \$5.77 per share, terms of ten years and vest and are exercisable in 20% annual increments over various five-year periods through February 2009.

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. The 2004 stock incentive plan authorizes the grant of stock-based awards to our employees, directors and consultants. A total of 6,928,406 shares of our Class A common stock initially were reserved for issuance under the 2004 stock incentive plan. This share reserve is reduced by one share upon grant of an option or stock appreciation right, and is reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Awards that expire, terminate, lapse, that are reacquired by us or are redeemed for cash rather than shares will again be available for grant under the stock incentive plan. No employee is eligible to be granted options or stock appreciation rights covering more than 2,078,522 shares during any calendar year. In addition, our board of directors has adopted a policy stating that no person is eligible to be granted options, stock appreciation rights or restricted stock purchase rights covering more than 692,841 shares during any calendar year and to be granted any other form of stock award permitted under the 2004 stock incentive plan covering more than 346,240 shares during any calendar year. As of December 31, 2004, 1,274,643 shares were subject to options issued under our 2004 stock incentive plan and 5,653,763 shares remained available for future grants under the 2004 stock incentive plan.

On June 10, 2004, a total of 20,643 options to acquire our Class A common stock, 10,318 of restricted stock awards in our Class A common stock and 3,682 unrestricted shares of our Class A common stock were issued to our non-employee directors pursuant to our annual director compensation policy and our 2004 stock incentive plan. The options have an exercise price of \$19.00, a term of seven years and vest ratably on a quarterly basis through June 10, 2011. The restricted stock awards vest in full on the third anniversary of the vesting commencement date, or June 10, 2007.

On September 22, 2004, pursuant to our 2004 stock incentive plan, certain employees were granted 1,254,000 options to acquire Class A common stock at an exercise price of \$22.39 per share. These options vest and are exercisable in 25% increments over a four-year period and expire on September 22, 2009.

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.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Warrants. Pursuant to an agreement entered into in connection with the 2001 Merger, we issued to our stockholders affiliated with Freeman Spogli a warrant to acquire 708,019 shares of our Class B common stock at an exercise price of \$10.825 per share in exchange for the cancellation of previously outstanding warrants to acquire 364,884 shares of CBRE common stock. These warrants were automatically exercised on a “cashless” basis in connection with our IPO in June 2004.

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

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Exercisable Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2001	4,873,435	\$ 6.51		
Granted	343,297	5.77		
Forfeited	(485,806)	5.77		
Outstanding at December 31, 2002	4,730,926	6.53	<u>769,261</u>	<u>\$5.77</u>
Granted	2,931,905	5.77		
Forfeited	(58,107)	5.77		
Outstanding at December 31, 2003	7,604,724	6.24	<u>1,538,575</u>	<u>\$5.77</u>
Exercised	(2,378,175)	7.28		
Granted	1,288,500	22.16		
Forfeited	(62,873)	5.77		
Outstanding at December 31, 2004	<u>6,452,176</u>	<u>\$ 9.05</u>	<u>1,255,055</u>	<u>\$5.81</u>

Option plans outstanding at December 31, 2004 and their related weighted average exercise price and life information is presented below:

<u>Exercise Prices</u>	<u>Outstanding Options</u>			<u>Exercisable Options</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$5.77	5,177,533	7.7	\$ 5.77	1,251,618	\$ 5.77
\$19.00 – \$22.39	1,274,643	4.7	22.34	3,437	19.00
	<u>6,452,176</u>	<u>7.1</u>	<u>\$ 9.05</u>	<u>1,255,055</u>	<u>\$ 5.81</u>

Deferred Compensation Plan. Our deferred compensation plan (the DCP) historically has permitted a select group of management employees, as well as other highly compensated employees, to elect, immediately prior to the beginning of each calendar year, to defer receipt of some or all of their compensation for the next year until a future distribution date and have it credited to one or more of several funds in the DCP.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Old DCP

Prior to amending the Old DCP as discussed below, each participant in the Old DCP was allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 80 mutual funds. Distributions with respect to the interest index and insurance fund accounts are made by us in cash. In addition, prior to July 2001, participants were entitled to invest their deferrals in stock fund units that are distributed as shares of our Class A common stock. As of December 31, 2004, there were 2,308,803 outstanding stock fund units under the Old DCP, all of which were vested.

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

Prior to our IPO, all shares held by our current and former employees and consultants, including any shares that such employees and consultants are entitled to receive as distributions with respect to stock fund units in the Old DCP, were subject to transfer restrictions. In connection with our IPO, we waived all of these transfer restrictions. As a result, all of these shares, including any shares received as future distributions with respect to stock fund units in the Old DCP, may be sold, subject to applicable securities law requirements. Shortly after our IPO, we filed a registration statement on Form S-8 that registered, among other things, the shares of Class A common stock to be distributed in the future with respect to stock fund units in the Old DCP. We entered into agreements with participants in the Old DCP holding stock fund units with 2,280,831 underlying shares of Class A common stock pursuant to which these participants agreed to sell no more than 20% of the shares underlying their current stock fund unit balances during any month over the five months in the period ending December 31, 2004 in exchange for fixed cash payments by us to these participants.

Prior to the 2001 Merger, participants were entitled to invest their deferrals in stock fund units that entitled the participants to receive future distributions of shares of CBRE common stock, which stock fund units now represent the right to receive future distributions of shares of our common stock. Each stock fund unit that was unvested prior to the 2001 Merger remained in participants' accounts, but after the 2001 Merger was converted to the right to receive 2.77 shares of our Class A common stock. These unvested stock fund units were accounted for as a deferred compensation asset and were amortized as compensation expense over the remaining vesting period for such stock fund units in accordance with FASB Interpretation No. 44, "*Accounting for Certain Transactions Involving Stock Compensation*," with \$1.4 million charged to compensation expense for the year ended December 31, 2004 and \$1.8 million charged to compensation expense for the years ended December 31, 2003 and 2002. During the year ended December 31, 2004, the remaining stock fund units became fully vested and accordingly the related deferred compensation asset was fully amortized. The accompanying consolidated balance sheets include the unamortized balances totaling \$1.4 million in other current assets as of December 31, 2003. Subsequent to the 2001 Merger, no new deferrals have been allowed in stock fund units.

In 2001, we announced a match for the Plan Year 2000, effective July 2001, in the amount of \$8.0 million to be invested in an interest bearing account on behalf of participants. The 2000 Company Match vests at 20% per year and will be fully vested by December 2005. The related compensation expense is being amortized over the

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

vesting period. The amounts charged to expense for the 2000 Company match were \$1.7 million for the years ended December 31, 2004, 2003 and 2002.

New DCP

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

Included in our accompanying consolidated balance sheets is an accumulated non-stock liability of \$166.7 million and \$138.0 million at December 31, 2004 and 2003, respectively, and assets (in the form of insurance) set aside to cover the liability of \$102.6 million and \$76.4 million as of December 31, 2004 and 2003, respectively. The current portion of the accumulated non-stock liability is \$6.4 million and \$6.1 million at December 31, 2004 and 2003, respectively, and is included in compensation and employee benefits payable in the accompanying consolidated balance sheets. In addition, our stock fund unit deferrals included in additional paid-in capital totaled \$13.3 million and \$18.1 million at December 31, 2004 and 2003, respectively.

Stock Purchase Plans. Prior to the 2001 Merger, CBRE had restricted stock purchase plans covering select key executives including senior management. A total of 550,000 shares of common stock were reserved for issuance under CBRE's 1996 Equity Incentive Plan. The shares were issued to senior executives for a purchase price equal to the greater of \$10.00 per share or fair market value. The purchase price for these shares was paid either in cash or by delivery of a full recourse promissory note. The majority of the notes related to the 1996 Equity Incentive Plan were repaid as part of the 2001 Merger, with the remaining unpaid outstanding balance of \$0.3 million and \$0.6 million as of December 31, 2004 and 2003, respectively, included in notes receivable from sale of stock in the accompanying consolidated statements of stockholders' equity.

Bonuses. We have bonus programs covering select employees, including senior management. Awards are based on the position and performance of the employee and the achievement of pre-established financial, operating and strategic objectives. The amounts charged to expense for bonuses were \$73.3 million for the year ended December 31, 2004, \$51.8 million for the year ended December 31, 2003 and \$40.2 million for the year ended December 31, 2002.

401(k) Plans. Our CB Richard Ellis 401(k) Plan (401(k) Plan) is a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. Generally, our U.S. employees are eligible to participate in the plan if the employee is at least 21 years old. The 401(k) Plan provides for participant contributions as well as discretionary employer contributions. A participant is allowed to contribute to the 401(k) Plan from 1% to 50% of his or her compensation, subject to limits imposed by applicable law. Each year, we determine the amount of employer contributions, if any, we will contribute to the 401(k) Plan based on the performance and profitability of our consolidated U.S. operations. Our contributions for the year are allocated to participants who are actively employed on the last day of the plan year in proportion to each participant's pre-tax contributions for that year, up to 5% of the participant's compensation. In connection with the 401(k) Plan, we incurred \$1.2 million for the year ended December 31, 2004, \$2.2 million for the year ended December 31, 2003, and no expense for the year ended December 31, 2002.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Participants are entitled to invest up to 25% of their 401(k) account balance in shares of our common stock. As of December 31, 2004, 238,105 shares of our common stock were held as investments by participants in our 401(k) plan.

In connection with the Insignia Acquisition, we assumed Insignia's existing 401(k) Retirement Savings Plan (Insignia 401(k) Plan) and its 401(k) Restoration Plan.

The Insignia 401(k) Plan covered substantially all Insignia employees in the U.S. Insignia made contributions equal to 25% of the employees' contributions up to a maximum of 6% of the employees' compensation and participants fully vested in employees' contributions after five years. Insignia's contribution was discontinued effective July 23, 2003. Upon the close of the Insignia Acquisition, participants in the Insignia 401(k) Plan were required, instead, to join our 401(k) Plan. Currently, only loan payments are being accepted into the former Insignia 401(k) Plan until we receive IRS approval to terminate the plan and transfer plan balances into our 401(k) Plan.

The 401(k) Restoration Plan allowed designated executives of Insignia and certain participating affiliated employees in the Insignia 401(k) Plan to defer the receipt of a portion of their compensation in excess of the amount of compensation that was permitted to be contributed to the Insignia 401(k) Plan. This plan ceased to accept deferrals on July 23, 2003.

Pension Plans. The London-based firm of Hillier Parker May & Rowden, which we acquired in 1998, had a contributory defined benefit pension plan. A subsidiary of Insignia, which we acquired in connection with the Insignia Acquisition in 2003, had a contributory defined benefit pension plan in the U.K. Our subsidiaries based in the U.K. maintain these plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined and as required by applicable laws and regulations. Pension expense totaled \$6.5 million for the year ended December 31, 2004, \$7.8 million for the year ended December 31, 2003 and \$3.6 million for the year ended December 31, 2002.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A measurement date of September 30, 2004 was used for both of our defined benefit pension plans for the year ended December 31, 2004. The defined benefit pension plan acquired in the Insignia Acquisition formerly had a measurement date of December 31. During 2004, the measurement date of this plan was changed to September 30 to conform with the measurement date used for our other defined benefit pension plan. The following table sets forth a reconciliation of the benefit obligation, plan assets, plan's funded status and amounts recognized in the accompanying consolidated balance sheets for both of our defined benefit pension plans. (dollars in thousands):

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Change in benefit obligation		
Benefit obligation at beginning of period	\$200,186	\$ 96,734
Service cost	6,782	6,248
Interest cost	11,223	7,573
Plan participants' contributions	2,332	1,929
Amendments	(6,462)	—
Actuarial loss	2,852	7,472
Insignia Acquisition	—	64,392
Benefits paid	(5,449)	(3,871)
Foreign currency translation	15,829	19,709
Benefit obligation at end of period	<u>\$227,293</u>	<u>\$200,186</u>
Change in plan assets		
Fair value of plan asset at beginning of period	\$155,958	\$ 76,430
Actuarial return on plan assets	15,260	18,317
Company contributions	4,668	2,850
Insignia Acquisition	—	45,295
Plan participants' contributions	2,332	1,929
Benefits paid	(5,449)	(3,871)
Foreign currency translation	12,626	15,008
Fair value of plan assets at end of period	<u>\$185,395</u>	<u>\$155,958</u>
Funded status	\$ (41,898)	\$ (44,228)
Unrecognized net actuarial loss	28,614	29,331
Unrecognized prior service cost (benefit)	(6,476)	—
Company contributions in the post-measurement period	779	485
Net amount recognized	<u>\$ (18,981)</u>	<u>\$ (14,412)</u>
Net amount recognized in the consolidated balance sheets		
Accrued benefit liability	\$ (27,871)	\$ (35,998)
Accumulated other comprehensive loss	8,890	21,586
	<u>\$ (18,981)</u>	<u>\$ (14,412)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accumulated benefit obligation for all defined benefit pension plans was \$215.8 million and \$194.3 million at December 31, 2004 and 2003, respectively. Net periodic pension cost consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2004	2003	2002
Service cost	\$ 6,782	\$ 6,248	\$ 5,578
Interest cost	11,223	7,573	4,764
Expected return on plan assets	(12,666)	(8,023)	(6,767)
Amortization of prior service cost	(279)	—	—
Amortization of unrecognized net gain	1,391	2,024	—
Net periodic pension cost	<u>\$ 6,451</u>	<u>\$ 7,822</u>	<u>\$ 3,575</u>

Weighted average assumptions used to determine our projected benefit obligation were as follows:

	Year Ended December 31,	
	2004	2003
Discount rate	5.70%	5.60%
Expected return on plan assets	7.72%	7.90%
Rate of compensation increase	3.94%	4.40%

Weighted average assumptions used to determine our net periodic pension cost were as follows:

	Year Ended December 31,		
	2004	2003	2002
Discount rate	5.66%	5.56%	6.00%
Expected return on plan assets	7.62%	7.88%	8.00%
Rate of compensation increase	3.90%	4.24%	4.50%

We review historical rates of return for equity and fixed income securities, as well as current economic conditions, to determine the expected long-term rate of return on plan assets. The assumed rate of return for 2004 is based on 72.4% of the portfolio being invested in equities yielding an 8.7% real return and 22.6% of assets being primarily invested in corporate and government debt securities yielding a 5.0% real return. Consideration is given to diversification and periodic rebalancing of the portfolio based on prevailing market conditions.

Our pension plan weighted average asset allocations at December 31, 2004 and 2003, by asset category are as follows:

Asset Category	Target Allocation 2005	Plan Assets At December 31,	
		2004	2003
Equity securities	52%-82%	72.4%	73.8%
Debt securities	13%-48%	22.6%	21.4%
Other	5%	5.0%	4.8%
Total		<u>100.0%</u>	<u>100.0%</u>

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Our pension trust assets are invested with a long-term focus to achieve a return on investment that is based on levels of liquidity and investment risk that the trustees, in consultation with management believe are prudent and reasonable. The investment portfolio contains a diversified blend of equity and fixed income and index linked investments consisting primarily of government debt. The equity investments are diversified across U.K. and non-U.K. equities, as well as value, growth, and medium and large capitalizations. The portfolio's asset mix is reviewed regularly, and the portfolio is rebalanced based on existing market conditions. Investment risk is measured and monitored on a regular basis through quarterly portfolio reviews, annual liability measurements and periodic asset/liability analyses.

We expect to contribute \$5.8 million to our pension plans in 2005. The following is a schedule by year of benefit payments, which reflect expected future service, as appropriate, that are expected to be paid (dollars in thousands):

2005	\$ 4,057
2006	4,561
2007	5,096
2008	5,552
2009-2014	<u>41,796</u>
Total	<u>\$61,062</u>

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11. Debt

Total debt consists of the following (dollars in thousands):

	December 31,	
	2004	2003
Long-Term Debt:		
Senior secured term loan, with interest ranging from 3.92% to 6.25%, due from 2004 through 2008	\$277,050	\$ 297,500
11 ¼% senior subordinated notes, net of unamortized discount of \$2.3 million and \$2.8 million at December 31, 2004 and 2003 due in 2011	205,032	226,173
9¾% senior notes due in 2010	130,000	200,000
16% senior notes, net of unamortized discount of \$2.8 million at December 31, 2003, due 2011	—	35,472
Non-recourse mortgage debt related to property held for sale with interest at one-month Yen LIBOR plus 3.50% and a maturity date of July 31, 2008	—	41,753
Capital lease obligations, mainly for automobiles and telephone equipment, with interest ranging from 6.50% to 7.00%, due through 2006	183	259
Other	573	1,548
Subtotal	612,838	802,705
Less current maturities of long-term debt	11,954	11,285
Total long-term debt	600,884	791,420
Short-Term Borrowings:		
Warehouse line of credit, with interest at one-month LIBOR plus 1.0% with a maturity date of September 1, 2005	138,233	230,790
Westmark senior notes, with interest ranging from 4.39% to 9.00%, due on demand	12,129	12,129
Euro cash pool loan, with interest at 2.50% over the applicable HSBC base rate and no stated maturity date	—	11,517
Insignia acquisition loan notes, with interest ranging from 2.95% to 3.00%, due on demand	8,535	12,191
Other	1,072	3,510
Total short-term borrowings	159,969	270,137
Add current maturities of long-term debt	11,954	11,285
Total current debt	171,923	281,422
Total debt	\$772,807	\$1,072,842

Future annual aggregate maturities of total consolidated debt at December 31, 2004 are as follows (dollars in thousands): 2005—\$171,923; 2006—\$12,246; 2007—\$11,833; 2008—\$11,820; 2009—\$11,820; and \$553,165 thereafter.

In connection with the 2001 Merger, we entered into a credit agreement with CSFB and other lenders. In connection with the Insignia Acquisition, we entered into an amended and restated credit agreement with CSFB and other lenders. On October 14, 2003, we refinanced all of the outstanding loans under that agreement. As part of this refinancing, we entered into a new amended and restated credit agreement. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our IPO, we completed a refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement, which became effective in connection with such refinancing. On November 15, 2004, we entered into an amendment to our new amended credit agreement (the Credit Agreement), which reduced the interest rate spread of the term loan and increased flexibility on certain restricted payments and investments.

The amended and restated credit facilities entered into in connection with the Insignia Acquisition included the following: (1) a Tranche A term facility of \$50.0 million maturing on July 20, 2007; (2) a Tranche B term facility of \$260.0 million maturing on July 18, 2008, \$75.0 million of which was drawn in connection with the Insignia Acquisition; and (3) a revolving line of credit of \$90.0 million, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche A term facility and revolving facility bore interest at varying rates based on our option, at either the applicable LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which is defined in the amended and restated credit agreement. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche B term facility bore interest at varying rates based on our option at either the applicable LIBOR plus 4.25% or the alternate base rate plus 3.25%.

In connection with the October 14, 2003 refinancing of our credit facilities and the signing of a new amended and restated credit agreement, the former Tranche A term facility and Tranche B term facility were combined into a new single term loan facility. The new term loan facility, of which \$300.0 million was drawn on October 14, 2003, required quarterly principal payments of \$2.5 million through September 30, 2008 and would have matured on December 31, 2008. Borrowings under the new term loan facility bore interest at varying rates based on our option at either LIBOR plus 3.25% or the alternate base rate plus 2.25%. The maturity date and interest rate for borrowings under the revolving credit facility remained unchanged in the new amended and restated credit agreement.

Our previous Credit Agreement permitted us, among other things to use the net proceeds we received from our IPO to pay down debt, including the redemptions in July 2004 of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9³/₄% senior notes due 2010, and the prepayment of \$15.0 million in principal amount of our term loan under our Credit Agreement, which prepayment occurred on June 15, 2004.

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

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the Credit Agreement, at a higher or lower rate. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$277.1 million and \$297.5 million as of December 31, 2004 and 2003, respectively.

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

The prior credit facilities were, and the current amended and restated credit facilities continue to be, jointly and severally guaranteed by us and substantially all of our domestic subsidiaries and are secured by a pledge of substantially all of our assets. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of unused 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 9¾% senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE's current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem \$70.0 million in aggregate principal amount, or 35%, of our 9¾% senior notes, which also required the payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off \$3.1 million of unamortized deferred financing costs in connection with this redemption. In the event of a change of control (as defined in the indenture governing our 9¾% senior notes), we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was \$130.0 million and \$200.0 million as of December 31, 2004 and 2003, respectively.

In June 2001, in connection with the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CBRE assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the 2001 Merger. The 11¼% senior subordinated notes are unsecured senior subordinated obligations of CBRE and rank equally in right of payment with any of CBRE's existing and future unsecured senior subordinated indebtedness, but are subordinated to any of CBRE's existing and future senior indebtedness. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11¼% senior subordinated notes), we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 2004, we repurchased \$21.6 million in aggregate principal amount

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of our 11 ¼% 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. The amount of the 11 ¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$205.0 million and \$226.2 million as of December 31, 2004 and 2003, respectively.

Also, to partially fund our acquisition of CBRE in 2001, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes were unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrued at a rate of 16.0% per year and was payable quarterly in arrears. Under the terms of the indenture governing the 16% senior notes and subject to the restrictions set forth in our previous Credit Agreement, the notes were redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes and paid \$2.9 million of premiums in connection with these redemptions. In addition, we wrote off \$1.7 million of unamortized deferred financing costs and unamortized discount in connection with these redemptions. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem the remaining \$38.3 million in aggregate principal amount of our 16% senior notes, which also required the payment of a \$2.5 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount in connection with this redemption. The amount of the 16% senior notes included in the accompanying consolidated balance sheet, net of unamortized discount was \$35.5 million as of December 31, 2003.

Our Credit Agreement and the indentures governing our 9¾% Senior Notes and our 11 ¼% Senior Subordinated Notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/ leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The 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).

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

We had short-term borrowings of \$160.0 million and \$270.1 million with related average interest rates of 3.7% and 2.7% as of December 31, 2004 and 2003, respectively.

Our wholly owned subsidiary, L.J. Melody & Company (L.J. Melody), has a credit agreement with Residential Funding Corporation (RFC) for the purpose of funding mortgage loans that will be resold. On August 19, 2004, we entered into a Third Amendment to the Fourth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit). The agreement 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 December 1, 2004. On December 1, 2004, we entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provides for a warehouse line of credit of up to \$250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on September 1, 2005. This agreement provides for the ability to terminate the warehousing commitment

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On December 13, 2004, we entered into the First Amendment to the Fifth Amended and Restated Warehousing Credit and Security Agreement whereby the warehousing commitment was temporarily increased to \$315.0 million effective December 20, 2004. This temporary increase is for the period from December 20, 2004 to and including January 20, 2005. During the years ended December 31, 2004 and 2003, respectively, we had a maximum of \$279.8 million and \$272.5 million warehouse line of credit principal outstanding with RFC. As of December 31, 2004 and 2003, we had a \$138.2 million and a \$230.8 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had \$138.2 million and \$230.8 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased as of December 31, 2004 and 2003, respectively, which are also included in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995, we issued approximately \$20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2004. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. During the year ended December 31, 2002, all of the Westmark senior notes bore interest at 9.0%. On January 1, 2003, the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our Credit Agreement. On January 1, 2005, the interest rate on all of the other Westmark senior notes will be adjusted to equal the interest rate then in effect with respect to amounts outstanding under our Credit Agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$12.1 million as of December 31, 2004 and 2003.

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 December 31, 2004 and 2003, \$8.5 million and \$12.2 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

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

One of our subsidiaries had a credit agreement with JP Morgan Chase. The credit agreement provided for a revolving line of credit of up to \$20.0 million, bore interest at 1.0% in excess of the bank's cost of funds and expired on May 28, 2004 without renewal.

12. Commitments and Contingencies

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a schedule by year of future minimum lease payments for noncancellable operating leases as of December 31, 2004 (dollars in thousands):

2005	\$113,538
2006	96,197
2007	82,433
2008	74,285
2009	72,155
Thereafter	<u>270,748</u>
Total minimum payment required	<u>\$709,356</u>

The total minimum payments for noncancellable operating leases were not reduced by the minimum sublease rental income of \$10.6 million due in the future under noncancellable subleases.

Substantially all leases require us to pay maintenance costs, insurance and property taxes. The composition of total rental expense under noncancellable operating leases consisted of the following (dollars in thousands):

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Minimum rentals	\$112,256	\$81,361	\$68,711
Less sublease rentals	<u>(1,152)</u>	<u>(2,134)</u>	<u>(1,157)</u>
	<u>\$111,104</u>	<u>\$79,227</u>	<u>\$67,554</u>

In connection with the sale of real estate investment assets by Insignia to Island on July 23, 2003 (See Note 3), Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of December 31, 2004, an aggregate of approximately \$5.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$1.6 million as security for Island's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island.

One of our subsidiaries previously executed an agreement with Fannie Mae to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and we retained the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$80.4 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$0.9 million. The other 1% is covered in the form of a guarantee to Fannie Mae.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We had outstanding letters of credit totaling \$6.1 million as of December 31, 2004, excluding letters of credit related to our outstanding indebtedness. Approximately \$5.2 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island described above. The remaining \$0.9 million outstanding letter of credit is the Fannie Mae letter of credit described above. The outstanding letters of credit as of December 31, 2004 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island Purchase Agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$9.1 million as of December 31, 2004, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae discussed above. Approximately \$4.4 million of the guarantees are related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island purchase agreement expired on the September 15, 2004 and was subsequently extended until March 31, 2005. Currently, renewals, modifications and extensions of such loan may be made without our consent, but the \$1.3 million amount of our guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of December 31, 2004, we had committed \$24.3 million to fund future co-investments.

13. Income Taxes

Our tax provision (benefit) consisted of the following (dollars in thousands):

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal:			
Current	\$ (3)	\$ (5,335)	\$10,204
Deferred	<u>9,324</u>	<u>(6,637)</u>	<u>6,232</u>
	9,321	(11,972)	16,436
State:			
Current	—	—	1,824
Deferred	<u>1,185</u>	<u>(1,613)</u>	<u>378</u>
	1,185	(1,613)	2,202
Foreign:			
Current	28,504	6,642	12,920
Deferred	<u>4,519</u>	<u>667</u>	<u>(1,452)</u>
	<u>33,023</u>	<u>7,309</u>	<u>11,468</u>
	<u>\$43,529</u>	<u>\$ (6,276)</u>	<u>\$30,106</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal statutory tax rate	35%	(35)%	35%
Permanent differences	(1)	1	15
State taxes, net of federal benefit	1	(3)	3
Taxes on foreign income which differ from the U.S. statutory rate	5	21	9
State net operating losses (NOL) not benefited	<u>—</u>	<u>1</u>	<u>—</u>
Effective tax rate	<u>40%</u>	<u>(15)%</u>	<u>62%</u>

The domestic component of income (loss) before provision (benefit) for income taxes included in the accompanying consolidated statements of operations was \$30.4 million for the year ended December 31, 2004, \$(31.6) million for the year ended December 31, 2003 and \$32.3 million for the year ended December 31, 2002. The international component of income (loss) before provision (benefit) for income taxes was \$77.9 million for the year ended December 31, 2004, \$(9.4) million for the year ended December 31, 2003 and \$16.5 million for the year ended December 31, 2002.

During the year ended December 31, 2004, we recorded a \$9.1 million income tax benefit in connection with stock options exercised in the current year. This income tax benefit was charged directly to additional paid-in capital within the stockholders' equity section of the accompanying consolidated balance sheets.

Cumulative tax effects of temporary differences are shown below at December 31, 2004 and 2003 (dollars in thousands):

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Asset (Liability)		
Property and equipment	\$ 11,939	\$ 6,738
Bad debt and other reserves	(17,023)	(17,768)
Capitalized costs and intangibles	(9,143)	(4,113)
Bonus and deferred compensation	81,913	80,048
Investment	4,060	5,622
NOL, alternative minimum tax credit and charitable contribution carryforwards and state tax credits	32,996	36,200
Unconsolidated affiliates	4,887	5,266
Pension obligation	10,741	14,492
Acquisition	3,237	3,237
All other	<u>15,626</u>	<u>18,892</u>
Net deferred tax assets before valuation allowances	139,233	148,614
Valuation allowances	<u>(37,640)</u>	<u>(58,754)</u>
Net deferred tax assets	<u>\$101,593</u>	<u>\$ 89,860</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Total deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 were as follows (dollars in thousands):

	December 31,	
	2004	2003
Total deferred tax assets	\$198,762	\$213,164
Deferred tax assets valuation allowances	(37,640)	(58,754)
	161,122	154,410
Total deferred tax liabilities	(59,529)	(64,550)
	\$101,593	\$ 89,860
Net deferred tax assets	\$101,593	\$ 89,860

As of December 31, 2004, we had U.S. federal NOL carryforwards of approximately \$45.8 million, translating to a deferred tax asset before valuation allowance of \$16.0 million. Approximately \$3.8 million of these NOLs begin to expire in 2010 and the remainder begins to expire in 2019. As of December 31, 2004, there were also deferred tax assets of approximately \$9.7 million related to state NOLs as well as \$4.0 million related to foreign NOLs. The utilization of NOLs may be subject to certain limitations under U.S. federal, state and foreign laws.

Management determined that as of December 31, 2004, \$37.6 million of deferred tax assets do not satisfy the recognition criteria set forth in SFAS No. 109. Accordingly, a valuation allowance has been recorded for this amount. During the year ended December 31, 2004, we determined that a portion of the net operating losses for which a net deferred tax asset valuation allowance had previously been recorded would be utilized. As a result, \$27.0 million of the deferred tax asset valuation allowance was reversed. Since the asset was established in connection with the 2001 Merger and the Insignia Acquisition, the reduction of the valuation allowance resulted in a decrease to goodwill. Also during 2004, we recorded a valuation allowance of \$5.9 million primarily related to foreign NOLs and California LARZ and EZ credits.

A deferred U.S. tax liability has not been provided on the unremitted earnings of foreign subsidiaries because it is our intent to permanently reinvest these earnings. Unremitted earnings of foreign subsidiaries, which have been, or are intended to be permanently invested in accordance with APB No. 23, “*Accounting for Income Taxes—Special Areas*,” aggregated approximately \$145.2 million at December 31, 2004. The determination of the tax liability upon repatriation is not practicable.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions of the Act. As such, we are not in a position to decide on whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. We are currently conducting an evaluation of the effects of the repatriation provisions of the Act and will complete this evaluation by December 31, 2005. We do not expect the Act to have a material impact on our financial position or results of operations.

14. Stockholders’ Equity

We are authorized to issue 325,000,000 shares of Class A common stock with \$0.01 par value per share. Holders of our Class A common stock are entitled to one vote per share on all matters on which our stockholders are entitled to vote. Holders of our Class A common stock are entitled to receive ratably dividends if, as and when declared from time to time by our board of directors out of funds legally available for that purpose, after

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

payment of dividends required to be paid on any outstanding preferred stock. Our senior credit facilities and indentures impose restrictions on our ability to declare dividends with respect to our Class A common stock.

Our board of directors is authorized, subject to any limitations imposed by law, without the approval of our stockholders, to issue a total of 25,000,000 shares of preferred stock, in one or more series, with each such series having rights and preferences including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as our board of directors may determine.

15. Earnings (Loss) Per Share Information

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

	Year Ended December 31,								
	2004			2003			2002		
	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings (loss) per share:									
Net income (loss) applicable to common stockholders	\$64,725	67,775,406	\$0.95	\$(34,704)	50,918,572	\$(0.68)	\$18,727	41,640,576	\$0.45
Diluted earnings (loss) per share:									
Net income (loss) applicable to common stockholders	\$64,725	67,775,406		\$(34,704)	50,918,572		\$18,727	41,640,576	
Dilutive effect of contingently issuable shares	—	1,010,753		—	—		—	545,413	
Dilutive effect of incremental stock options ..	—	2,558,914		—	—		—	—	
Net income (loss) applicable to common stockholders	\$64,725	71,345,073	\$0.91	\$(34,704)	50,918,572	\$(0.68)	\$18,727	42,185,989	\$0.44

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

	Year Ended December 31,	
	2003	2002
Stock options		
Outstanding	6,896,705	4,022,907
Price	\$5.77	\$5.77
Expiration date	7/20/11 -11/5/13	7/20/11 -7/31/12
Stock warrants		
Outstanding	708,019	708,019
Price	\$10.825	\$10.825
Expiration date	8/27/07	8/27/07

All options and warrants for the year ended December 31, 2003 were anti-dilutive since we reported a net loss. Any assumed exercise of options or warrants would have been anti-dilutive as they would have resulted in a lower loss per share.

16. 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 \$676.3 million and \$626.3 million at December 31, 2004 and 2003, respectively.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

17. Fair Value of Financial Instruments

SFAS No. 107, “*Disclosures about Fair Value of Financial Instruments*,” requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

Receivables: Due to their short-term nature, fair value approximates carrying value.

Warehouse Receivable: Due to the short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of the funded mortgage loans and generally reflects the value of the RFC warehouse line of credit outstanding (See Note 11)

Short-Term Borrowings: The majority of this balance represents the warehouse line of credit. Due to the short-term maturities and variable interest rates of these instruments, fair value approximates carrying value (See Note 11).

11 1/4% Senior Subordinated Notes: Based on dealers’ quotes, the estimated fair value of the 11 1/4% senior subordinated notes was \$236.4 million and \$256.5 million at December 31, 2004 and 2003, respectively. Their actual carrying value totaled \$205.0 million and \$226.2 million at December 31, 2004 and 2003, respectively (See Note 11).

9 3/4% Senior Notes: Based on dealers’ quotes, the estimated fair value of the 9 3/4% senior notes was \$148.2 million and \$222.0 million at December 31, 2004 and 2003, respectively. Their actual carrying value totaled \$130.0 million and \$200.0 million at December 31, 2004 and 2003, respectively (See Note 11).

Senior Secured Terms Loans & Other Long-Term Debt: Estimated fair values approximate respective carrying values because the majority of these instruments are based on variable interest rates (see Note 11).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Merger-Related Charges

We recorded merger-related charges of \$25.6 million and \$36.8 million for the years ended December 31, 2004 and 2003, respectively, in connection with the Insignia Acquisition. These charges primarily related to the exit of facilities that were occupied by us prior to the Insignia Acquisition as well as the termination of employees, both of which became duplicative as a result of the Insignia Acquisition. We recorded charges for the exit of these facilities as premises were vacated and for redundant employees as these employees were terminated, both in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Additionally, we recorded consulting costs, which represented fees paid to outside parties for nonrecurring services relating to the combination of Insignia's financial systems and businesses with ours. Our merger-related charges consisted of the following (dollars in thousands):

	<u>2003</u> <u>Charges</u>	<u>2004</u> <u>Charges</u>	<u>Utilized</u> <u>To Date</u>	<u>To be</u> <u>Utilized</u>
Lease termination costs	\$15,805	\$19,643	\$ (9,528)	\$25,920
Severance	7,042	2,215	(9,257)	—
Change of control payments	6,525	—	(6,525)	—
Consulting costs	2,738	1,888	(4,626)	—
Other	4,707	1,828	(6,535)	—
Total merger-related charges	<u>\$36,817</u>	<u>\$25,574</u>	<u>\$(36,471)</u>	<u>\$25,920</u>

19. Guarantor and Nonguarantor Financial Statements

The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. See Note 11 for additional information on the 9¾% senior notes and the 11¼% senior subordinated notes.

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of December 31, 2004 and 2003; condensed consolidating statements of operations for the years ended December 31, 2004, 2003 and 2002 and condensed consolidating statements of cash flows for the years ended December 31, 2004, 2003 and 2002 of (a) CB Richard Ellis Group as the parent, (b) CBRE as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CB Richard Ellis Group on a consolidated basis; and

(2) Elimination entries necessary to consolidate CB Richard Ellis Group as the parent, with CBRE and its guarantor and nonguarantor subsidiaries.

Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and intercompany balances and transactions. The purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. The condensed consolidated balance sheet as of December 31, 2004 reflects the allocation of goodwill based upon the final valuation of the net assets acquired, which valuation was completed during 2004. As a result, the condensed consolidated balance sheet as of December 31, 2003 reflects the allocation of goodwill based upon the estimated fair value of Insignia's acquired reporting units as of that date (See Note 3 for additional information).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Current Assets:						
Cash and cash equivalents	\$ 3,496	\$ 2,806	\$ 216,463	\$ 34,131	\$ —	\$ 256,896
Restricted cash	—	—	8,735	478	—	9,213
Receivables, less allowance for doubtful accounts	9	—	135,117	258,936	—	394,062
Warehouse receivable (a)	—	—	138,233	—	—	138,233
Prepaid expenses and other current assets	26,065	178	19,925	19,123	—	65,291
Total Current Assets	29,570	2,984	518,473	312,668	—	863,695
Property and equipment, net	—	—	82,714	54,989	—	137,703
Goodwill	—	—	561,589	259,919	—	821,508
Other intangible assets, net	—	—	88,544	25,109	—	113,653
Deferred compensation assets	—	102,578	—	—	—	102,578
Investments in and advances to unconsolidated subsidiaries	—	8,676	56,191	18,634	—	83,501
Investments in consolidated subsidiaries	410,107	252,964	206,810	—	(869,881)	—
Inter-company loan receivable	71,006	797,432	—	—	(868,438)	—
Deferred tax assets, net	78,471	—	—	—	—	78,471
Other assets, net	—	23,681	31,808	15,038	—	70,527
Total Assets	\$589,154	\$1,188,315	\$1,546,129	\$686,357	\$(1,738,319)	\$2,271,636
Current Liabilities:						
Accounts payable and accrued expenses	\$ —	\$ 5,845	\$ 67,664	\$ 112,368	\$ —	\$ 185,877
Compensation and employee benefits payable	—	—	92,652	58,069	—	150,721
Accrued bonus and profit sharing	—	—	151,800	119,220	—	271,020
Short-term borrowings:						
Warehouse line of credit (a)	—	—	138,233	—	—	138,233
Other	—	—	21,540	196	—	21,736
Total short-term borrowings	—	—	159,773	196	—	159,969
Current maturities of long-term debt	—	11,800	—	154	—	11,954
Other current liabilities	29,206	—	—	341	—	29,547
Total Current Liabilities	29,206	17,645	471,889	290,348	—	809,088
Long-Term Debt:						
11 ¼% senior subordinated notes, net of unamortized discount	—	205,032	—	—	—	205,032
Senior secured term loan	—	265,250	—	—	—	265,250
9 ¾% senior notes	—	130,000	—	—	—	130,000
Inter-company loan payable	—	—	751,259	117,179	(868,438)	—
Other long-term debt	—	—	—	602	—	602
Total Long-Term Debt	—	600,282	751,259	117,781	(868,438)	600,884
Deferred compensation liability	—	160,281	—	—	—	160,281
Other liabilities	—	—	70,017	65,493	—	135,510
Total Liabilities	29,206	778,208	1,293,165	473,622	(868,438)	1,705,763
Minority interest	—	—	—	5,925	—	5,925
Commitments and contingencies	—	—	—	—	—	—
Stockholders' Equity	559,948	410,107	252,964	206,810	(869,881)	559,948
Total Liabilities and Stockholders' Equity	\$589,154	\$1,188,315	\$1,546,129	\$686,357	\$(1,738,319)	\$2,271,636

(a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 ¾% senior notes and 11 ¼% senior subordinated notes, all warehouse receivables funded under the RFC line of credit are pledged to RFC, and accordingly are not included as collateral for these notes or our other outstanding debt.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2003

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Current Assets:						
Cash and cash equivalents	\$ 3,008	\$ 17	\$ 148,752	\$ 12,104	\$ —	\$ 163,881
Restricted cash	—	—	12,545	2,354	—	14,899
Receivables, less allowance for doubtful accounts	27	18	114,215	208,156	—	322,416
Warehouse receivable (a)	—	—	230,790	—	—	230,790
Prepaid expenses and other current assets	63,557	42,151	18,957	22,998	(40,667)	106,996
Total Current Assets	66,592	42,186	525,259	245,612	(40,667)	838,982
Property and equipment, net	—	—	66,280	47,289	—	113,569
Goodwill	—	—	572,376	247,182	—	819,558
Other intangible assets, net	—	—	101,326	30,405	—	131,731
Deferred compensation assets	—	76,389	—	—	—	76,389
Investments in and advances to unconsolidated subsidiaries	—	4,973	50,732	12,656	—	68,361
Investments in consolidated subsidiaries	321,451	252,399	199,393	—	(773,243)	—
Intercompany loan receivable	—	787,009	—	—	(787,009)	—
Deferred tax assets, net	32,179	—	—	—	—	32,179
Other assets, net	2,555	27,819	44,779	57,559	—	132,712
Total Assets	\$422,777	\$1,190,775	\$1,560,145	\$640,703	\$(1,600,919)	\$2,213,481
Current Liabilities:						
Accounts payable and accrued expenses	\$ 1,187	\$ 7,614	\$ 64,392	\$ 116,594	\$ —	\$ 189,787
Inter-company payable	40,667	—	—	—	(40,667)	—
Compensation and employee benefits payable	—	6,087	98,160	50,714	—	154,961
Accrued bonus and profit sharing	—	—	112,365	87,978	—	200,343
Short-term borrowings:						
Warehouse line of credit (a)	—	—	230,790	—	—	230,790
Other	—	—	25,480	13,867	—	39,347
Total short-term borrowings	—	—	256,270	13,867	—	270,137
Current maturities of long-term debt	—	10,000	1,029	256	—	11,285
Other current liabilities	12,522	—	—	469	—	12,991
Total Current Liabilities	54,376	23,701	532,216	269,878	(40,667)	839,504
Long-Term Debt:						
11 ¼% senior subordinated notes, net of unamortized discount	—	226,173	—	—	—	226,173
Senior secured term loan	—	287,500	—	—	—	287,500
9 ¾% senior notes	—	200,000	—	—	—	200,000
16% senior notes, net of unamortized discount	35,472	—	—	—	—	35,472
Inter-company loan payable	—	—	726,844	60,165	(787,009)	—
Other long-term debt	—	—	330	41,945	—	42,275
Total Long-Term Debt	35,472	713,673	727,174	102,110	(787,009)	791,420
Deferred compensation liability	—	131,950	—	—	—	131,950
Other liabilities	—	—	48,356	62,666	—	111,022
Total Liabilities	89,848	869,324	1,307,746	434,654	(827,676)	1,873,896
Minority interest	—	—	—	6,656	—	6,656
Commitments and contingencies	—	—	—	—	—	—
Stockholders' Equity	332,929	321,451	252,399	199,393	(773,243)	332,929
Total Liabilities and Stockholders' Equity	\$422,777	\$1,190,775	\$1,560,145	\$640,703	\$(1,600,919)	\$2,213,481

- (a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 ¾% senior notes and 11 ¼% senior subordinated notes, all warehouse receivables funded under the RFC line of credit are pledged to RFC, and accordingly are not included as collateral for these notes or our other outstanding debt.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$ —	\$ —	\$1,617,413	\$747,683	\$ —	\$2,365,096
Costs and expenses:						
Cost of services	—	—	880,830	322,935	—	1,203,765
Operating, administrative and other	2,168	12,933	566,479	328,312	—	909,892
Depreciation and amortization	—	—	36,263	18,594	—	54,857
Merger-related charges	—	—	22,038	3,536	—	25,574
Operating (loss) income	(2,168)	(12,933)	111,803	74,306	—	171,008
Equity income from unconsolidated subsidiaries	—	781	15,836	2,858	—	19,475
Interest income	185	53,585	3,249	782	(53,537)	4,264
Interest expense	4,094	58,874	48,363	7,624	(53,537)	65,418
Loss on extinguishment of debt	7,166	—	13,909	—	—	21,075
Equity income from consolidated subsidiaries	74,467	82,987	37,300	—	(194,754)	—
Income before (benefit) provision for income taxes	61,224	65,546	105,916	70,322	(194,754)	108,254
(Benefit) provision for income taxes	(3,501)	(8,921)	22,929	33,022	—	43,529
Net income	<u>\$64,725</u>	<u>\$ 74,467</u>	<u>\$ 82,987</u>	<u>\$ 37,300</u>	<u>\$(194,754)</u>	<u>\$ 64,725</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$ —	\$ —	\$1,137,987	\$492,087	\$ —	\$1,630,074
Costs and expenses:						
Cost of services	—	—	577,808	218,620	—	796,428
Operating, administrative and other	426	4,973	447,447	225,531	—	678,377
Depreciation and amortization	—	—	56,853	35,769	—	92,622
Merger-related charges	—	—	20,367	16,450	—	36,817
Operating (loss) income	(426)	(4,973)	35,512	(4,283)	—	25,830
Equity income from unconsolidated subsidiaries	—	132	13,818	415	—	14,365
Interest income	185	39,312	2,659	257	(38,853)	3,560
Interest expense	4,336	61,907	38,046	5,820	(38,853)	71,256
Loss on extinguishment of debt . . .	13,479	—	—	—	—	13,479
Equity loss from consolidated subsidiaries	(21,214)	(8,432)	(16,739)	—	46,385	—
Loss before (benefit) provision for income taxes	(39,270)	(35,868)	(2,796)	(9,431)	46,385	(40,980)
(Benefit) provision for income taxes	(4,566)	(14,654)	5,636	7,308	—	(6,276)
Net loss	<u>\$(34,704)</u>	<u>\$(21,214)</u>	<u>\$ (8,432)</u>	<u>\$ (16,739)</u>	<u>\$ 46,385</u>	<u>\$ (34,704)</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$ —	\$ —	\$849,563	\$320,714	\$ —	\$1,170,277
Costs and expenses:						
Cost of services	—	—	413,830	133,263	—	547,093
Operating, administrative and other	415	1,186	345,279	154,918	—	501,798
Depreciation and amortization . .	—	—	15,833	8,781	—	24,614
Merger-related charges	—	36	—	—	—	36
Operating (loss) income	<u>(415)</u>	<u>(1,222)</u>	<u>74,621</u>	<u>23,752</u>	<u>—</u>	<u>96,736</u>
Equity income from unconsolidated subsidiaries	—	662	7,449	1,215	—	9,326
Interest income	158	42,845	2,079	916	(42,726)	3,272
Interest expense	11,344	42,731	39,742	9,410	(42,726)	60,501
Equity income from consolidated subsidiaries	<u>27,306</u>	<u>32,898</u>	<u>5,005</u>	<u>—</u>	<u>(65,209)</u>	<u>—</u>
Income before (benefit) provision for income taxes	15,705	32,452	49,412	16,473	(65,209)	48,833
(Benefit) provision for income taxes	<u>(3,022)</u>	<u>5,146</u>	<u>16,514</u>	<u>11,468</u>	<u>—</u>	<u>30,106</u>
Net income	<u>\$18,727</u>	<u>\$27,306</u>	<u>\$ 32,898</u>	<u>\$ 5,005</u>	<u>\$(65,209)</u>	<u>\$ 18,727</u>

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES:	\$ 37,164	\$ (4,839)	\$ 119,814	\$ 30,036	\$ 182,175
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of servicing rights and other assets	—	—	5,830	873	6,703
Proceeds from sale of property held for sale	—	—	—	50,401	50,401
Capital expenditures	—	—	(37,884)	(15,069)	(52,953)
Purchases of investments	—	—	—	(7,805)	(7,805)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	—	—	(10,906)	(14,236)	(25,142)
Other investing activities, net	—	(377)	5,836	18	5,477
Net cash (used in) provided by investing activities	—	(377)	(37,124)	14,182	(23,319)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from the revolver and swingline credit facility	—	186,750	—	—	186,750
Repayment of revolver and swingline credit facility	—	(186,750)	—	—	(186,750)
Repayment of senior secured term loan	—	(20,450)	—	—	(20,450)
Repayment of non-recourse debt related to property held for sale	—	—	—	(41,956)	(41,956)
Repayment of euro cash pool and other loans, net	—	—	(4,857)	(11,824)	(16,681)
Repayment of 9¾% senior notes	—	(70,000)	—	—	(70,000)
Repayment of 11¼% senior subordinated notes	—	(21,631)	—	—	(21,631)
Repayment of 16% senior notes	(38,316)	—	—	—	(38,316)
Proceeds from issuance of common stock, net	135,000	—	—	—	135,000
Proceeds from exercise of stock options	9,643	—	—	—	9,643
Payment of deferred financing fees	—	(4,683)	—	—	(4,683)
(Increase) decrease in inter-company receivables, net	(147,112)	124,769	(10,122)	32,465	—
Other financing activities, net	4,109	—	—	(2,401)	1,708
Net cash (used in) provided by financing activities	(36,676)	8,005	(14,979)	(23,716)	(67,366)
NET INCREASE IN CASH AND CASH EQUIVALENTS	488	2,789	67,711	20,502	91,490
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3,008	17	148,752	12,104	163,881
Effect of currency exchange rate changes on cash	—	—	—	1,525	1,525
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	<u>\$ 3,496</u>	<u>\$ 2,806</u>	<u>\$ 216,463</u>	<u>\$ 34,131</u>	<u>\$ 256,896</u>
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 7,050	\$ 67,020	\$ 1,548	\$ 3,136	\$ 78,754
Income taxes, net of refunds	\$ 17,915	\$ —	\$ —	\$ —	\$ 17,915

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	\$ (30,872)	\$ 5,041	\$ 63,064	\$ 40,046	\$ 77,279
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	—	(17,449)	(22,850)	(40,299)
Proceeds from sale of servicing rights and other assets	—	—	3,753	196	3,949
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	—	—	(276,401)	12,718	(263,683)
Other investing activities, net	—	26	6,415	(4,541)	1,900
Net cash provided by (used in) investing activities	—	26	(283,682)	(14,477)	(298,133)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolver and swingline credit facility	—	152,850	—	—	152,850
Repayment of revolver and swingline credit facility	—	(152,850)	—	—	(152,850)
Proceeds from senior secured term loans	—	375,000	—	—	375,000
Repayment of senior secured term loans	—	(298,476)	—	—	(298,476)
Proceeds from 9¾% senior notes	—	200,000	—	—	200,000
Repayment of notes payable	—	(43,000)	—	—	(43,000)
Repayment of 16% senior notes	(30,000)	—	—	—	(30,000)
(Repayment of) proceeds from euro cash pool and other loans, net	—	—	(914)	3,943	3,029
Proceeds from issuance of common stock, net	120,980	—	—	—	120,980
(Increase) decrease in inter-company receivables, net	(56,894)	(215,929)	296,111	(23,288)	—
Other financing activities, net	(333)	(22,700)	—	(837)	(23,870)
Net cash provided by (used in) financing activities	33,753	(5,104)	295,197	(20,182)	303,664
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,881	(37)	74,579	5,387	82,810
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	127	54	74,173	5,347	79,701
Effect of currency exchange rate changes on cash	—	—	—	1,370	1,370
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	<u>\$ 3,008</u>	<u>\$ 17</u>	<u>\$ 148,752</u>	<u>\$ 12,104</u>	<u>\$ 163,881</u>
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 15,823	\$ 44,201	\$ —	\$ 3,694	\$ 63,718
Income taxes, net of refunds	\$ 17,783	\$ —	\$ —	\$ —	\$ 17,783

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES:	\$ 589	\$ (7,905)	\$ 46,779	\$ 30,108	\$ 69,571
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	—	(14,738)	(4,217)	(18,955)
Proceeds from sale of properties and servicing rights	—	—	2,515	3,863	6,378
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	—	(11,588)	(35)	(3,188)	(14,811)
Other investing activities, net	—	44	196	(1,671)	(1,431)
Net cash used in investing activities	—	(11,544)	(12,062)	(5,213)	(28,819)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolver and swingline credit facility	—	238,000	—	—	238,000
Repayment of revolver and swingline credit facility	—	(238,000)	—	—	(238,000)
Repayment of senior secured term loans	—	(9,351)	—	—	(9,351)
Repayment of euro cash pool and other loans, net	—	(189)	(3,116)	(4,900)	(8,205)
Decrease (increase) in inter-company receivables, net	—	28,284	462	(28,746)	—
Other financing activities, net	(465)	(172)	(94)	449	(282)
Net cash (used in) provided by financing activities	(465)	18,572	(2,748)	(33,197)	(17,838)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	124	(877)	31,969	(8,302)	22,914
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3	931	42,204	14,312	57,450
Effect of currency exchange rate changes on cash	—	—	—	(663)	(663)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	<u>\$ 127</u>	<u>\$ 54</u>	<u>\$ 74,173</u>	<u>\$ 5,347</u>	<u>\$ 79,701</u>
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	\$ 8,509	\$ 38,751	\$ 1,635	\$ 3,752	\$ 52,647
Income taxes, net of refunds	\$ 19,142	\$ —	\$ —	\$ —	\$ 19,142

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

20. Industry Segments

Effective with the fourth quarter of 2004, we reorganized our business segments for financial reporting purposes by separating the Global Investment Management business from our geographic regions. This action was taken in an effort to increase our transparency of reporting in light of the growing significance of our Global Investment Management business. This reorganization has reduced revenues and earnings in the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific regions, but has had no impact on consolidated results. Accordingly, we now report our operations through four primary segments. The segments are as follows: (1) Americas, (2) 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)

We do not allocate net interest expense, loss on extinguishment of debt or provision (benefit) for income taxes among our segments. Summarized financial information by operating segment is as follows (dollars in thousands):

	Year Ended December 31,		
	2004	2003	2002
Revenue			
Americas	\$1,660,307	\$1,155,461	\$ 861,027
EMEA	459,741	298,725	171,187
Asia Pacific	151,034	107,501	80,929
Global Investment Management	94,014	68,387	57,134
	\$2,365,096	\$1,630,074	\$1,170,277
Operating income (loss)			
Americas	\$ 106,704	\$ 30,175	\$ 70,769
EMEA	30,902	(20,851)	14,496
Asia Pacific	18,553	7,046	2,239
Global Investment Management	14,849	9,460	9,232
	171,008	25,830	96,736
Equity income (loss) from unconsolidated subsidiaries			
Americas	10,288	8,073	7,075
EMEA	(519)	(206)	26
Asia Pacific	555	361	591
Global Investment Management	9,151	6,137	1,634
	19,475	14,365	9,326
Interest income	4,264	3,560	3,272
Interest expense	65,418	71,256	60,501
Loss on extinguishment of debt	21,075	13,479	—
Income (loss) before provision (benefit) for income taxes	\$ 108,254	\$ (40,980)	\$ 48,833
Depreciation and amortization			
Americas	\$ 37,514	\$ 56,865	\$ 15,757
EMEA	12,050	31,110	4,446
Asia Pacific	2,476	2,226	2,228
Global Investment Management	2,817	2,421	2,183
	\$ 54,857	\$ 92,622	\$ 24,614
Capital expenditures			
Americas	\$ 39,470	\$ 17,965	\$ 15,452
EMEA	10,038	19,406	2,018
Asia Pacific	2,180	1,605	1,240
Global Investment Management	1,265	1,323	245
	\$ 52,953	\$ 40,299	\$ 18,955
		December 31,	
	2004	2003	2002
	(Dollars in thousands)		
Identifiable assets			
Americas	\$1,295,719	\$1,360,033	\$ 859,174
EMEA	406,337	392,492	168,308
Asia Pacific	83,033	114,648	89,932
Global Investment Management	128,058	92,567	63,855
Corporate	358,489	253,741	143,607
	\$2,271,636	\$2,213,481	\$1,324,876

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
	(Dollars in thousands)	
Investments in and advances to unconsolidated subsidiaries		
Americas	\$19,636	\$20,735
EMEA	144	548
Asia Pacific	6,042	5,136
Global Investment Management	57,679	41,942
	<u>\$83,501</u>	<u>\$68,361</u>

Geographic Information:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)		
Revenue			
U.S.	\$1,617,315	\$1,137,986	\$ 849,563
U.K.	294,934	179,792	95,947
All other countries	452,847	312,296	224,767
	<u>\$2,365,096</u>	<u>\$1,630,074</u>	<u>\$1,170,277</u>

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
	(Dollars in thousands)	
Long-lived assets		
U.S.	\$ 82,714	\$ 66,280
U.K.	33,611	31,707
All other countries	21,378	15,582
	<u>\$137,703</u>	<u>\$113,569</u>

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

21. Related Party Transactions

Included in other current and other assets in the accompanying consolidated balance sheets are employee loans of \$25.1 million and \$31.7 million as of December 31, 2004 and 2003, respectively. The majority of these loans represent sign-on and retention bonuses issued or assumed in connection with the Insignia Acquisition as well as prepaid retention and recruitment awards issued to employees. These loans are at varying principal amounts, bear interest at rates up to 10% per annum and mature on various dates through 2008. As of December 31, 2002, the outstanding employee loan balances included a \$0.3 million loan to Ray Wirta, our Chief Executive Officer, and a \$0.2 million loan to Brett White, our President. These non-interest bearing loans to Mr. Wirta and Mr. White were issued during 2002 and were due and payable on December 31, 2003. The compensation committee of our board of directors forgave Mr. Wirta's and Mr. White's loans in full, effective January 1, 2004.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accompanying consolidated balance sheets also include \$0.4 million and \$4.7 million of notes receivable from sale of stock as of December 31, 2004 and 2003, respectively. These notes are primarily comprised of full recourse loans to our employees, officers and certain shareholders, and are secured by our common stock that is owned by the borrowers. These recourse loans are at varying principal amounts, require quarterly interest payments, bear interest at rates up to 10.0% per annum and mature on various dates through 2010.

Pursuant to the Equity Incentive Plan (EIP), Mr. Wirta purchased 30,000 shares of CBRE common stock in 2000 at a purchase price of \$12.875 per share that was paid for by the delivery of a full recourse promissory note bearing interest at 7.40%. As part of the 2001 Merger, the 30,000 shares of CBRE common stock were exchanged for 83,141 shares of our Class A common stock, which shares were substituted for the CBRE shares as security for the note. All interest charged on the outstanding promissory note balance for any year was forgiven if Mr. Wirta's performance produced a high enough level of bonus, with approximately \$7,500 of interest forgiven for each \$10,000 of bonus. In 2004, our board of directors forgave all 2003 interest on Mr. Wirta's promissory note. As of December 31, 2003 Mr. Wirta had an outstanding loan balance of \$385,950, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheet. Mr. Wirta repaid this loan in full on December 28, 2004.

Pursuant to the EIP, Mr. White purchased 25,000 shares of CBRE common stock in 1998 at a purchase price of \$38.50 per share and 20,000 shares of CBRE common stock in 2000 at a purchase price of \$12.875 per share. These purchases were paid for by the delivery of full recourse promissory notes. A First Amendment to Mr. White's 1998 promissory note provided that the portion of the then outstanding principal in excess of the fair market value of the shares would be forgiven in the event that Mr. White was an employee of ours or of our subsidiaries on November 16, 2002 and the fair market value of our common stock was at least \$38.50 per share on November 16, 2002. Mr. White's promissory note was subsequently amended, terminating the First Amendment and adjusting the original 1998 Stock Purchase Agreement by reducing the purchase price from \$13.89 to \$5.77. During 2002, the 69,284 shares held as security for the Second Amended Promissory Note were tendered as full payment for this note. The remaining note delivered by Mr. White bears interest at 7.40%. As part of the 2001 Merger, the 20,000 shares of CBRE common stock purchased by Mr. White were exchanged for 55,427 shares of our common Class A common stock, which shares were substituted for CBRE shares as security for the note. All interest charged on the outstanding promissory note balances for any year is forgiven if Mr. White's performance produces a high enough level of bonus, with approximately \$7,500 of interest forgiven for each \$10,000 of bonus. In 2004, our board of directors forgave all 2003 interest on Mr. White's promissory note. As of December 31, 2004 and 2003, Mr. White had an outstanding loan balance \$257,300, which is included in notes receivable from the sale of stock in the accompanying consolidated balance sheets. Mr. White repaid this loan in full on February 15, 2005.

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

At the time of the 2001 Merger, Mr. Wirta delivered to us an \$80,000 promissory note, which bore interest at 10% per year, as payment for the purchase of 13,856 shares of our Class B common stock. Mr. Wirta repaid this promissory note in full in April of 2002. Additionally, Mr. Wirta and Mr. White delivered full-recourse notes in the amounts of \$512,504 and \$209,734, respectively, as payment for a portion of the shares of Class A common stock purchased in connection with the 2001 Merger. These notes bore interest at 10% per year. During

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the year ended December 31, 2002, Mr. White paid off his note in its entirety. As of December 31, 2003, Mr. Wirta has an outstanding loan balance of \$401,903, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheet. Mr. Wirta repaid this loan in full on December 28, 2004.

Pursuant to the terms of Mr. Wirta's employment agreement that he entered into in 2001 we agreed to loan Mr. Wirta up to \$3.0 million on a full-recourse basis to enable him to exercise an existing option to acquire shares held by The Koll Holding Company if Mr. Wirta was employed by us at the time of exercise, was terminated without cause or resigned for good reason and the shares he would receive upon such exercise would not be freely tradable on a national securities exchange or an over-the-counter market by June 2004. Mr. Wirta exercised his option on April 8, 2004 and, pursuant to the terms of his employment agreement, we loaned Mr. Wirta \$3.0 million on that date. Mr. Wirta's shares would not have been freely tradable on a national securities exchange or on an over-the-counter market by June 2004 as a result of transfer restrictions applicable to Mr. Wirta's shares. This loan was repayable upon the earliest to occur of the following: (1) 90 days following termination of his employment, other than by us without cause or by him for good reason, (2) seven months following the date Mr. Wirta's shares of common stock are freely tradable as described above and (3) the receipt of proceeds from the sale of the pledged shares described below. This loan bore interest at 4% per year, which was the prime rate in effect on the date of the loan, compounded annually, and was repayable to the extent of any net proceeds received by Mr. Wirta upon the sale of any shares of our common stock. Mr. Wirta repaid this loan in full on December 28, 2004.

From time to time, directors and executive officers are given an opportunity to invest in investment vehicles managed by certain of our subsidiaries on the same terms as unaffiliated investors. Previously, Mr. Wirta invested an aggregate of \$25,000, \$50,000 and \$75,000, respectively (through pooled co-investment vehicles organized for the investment of certain employees), in CB Richard Ellis Strategic Partners, L.P., CB Richard Ellis Strategic Partners II, L.P. and CB Richard Ellis Strategic Partners III, L.P. (the "SP Funds") on the same terms as unaffiliated investors. The SP Funds are certain closed-end real estate investment funds managed and sponsored by our subsidiary, CB Richard Ellis Investors. Each of Mr. Wirta's previous investments was approved by our then controlling stockholder prior to our initial public offering. Such future investments by directors or executive officers will require approval of a majority of the disinterested members of our Board of Directors.

22. Subsequent Event

In January and February 2005, we repurchased \$26.4 million in aggregate principal amount of our 11¼ senior subordinated notes in the open market. We paid an aggregate of \$4.0 million of premiums in connection with these open market purchases.

CB RICHARD ELLIS GROUP, INC.
QUARTERLY RESULTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended December 31, 2004</u>	<u>Three Months Ended September 30, 2004</u>	<u>Three Months Ended June 30, 2004</u>	<u>Three Months Ended March 31, 2004</u>
	(Dollars in thousands, except share data)			
Revenue	\$ 798,189	\$ 574,999	\$ 550,916	\$ 440,992
Operating income (loss)	110,236	44,682	25,362	(9,272)
Net income (loss)	66,433	11,895	2,965	(16,568)
Basic EPS (1)	0.91	0.17	0.05	(0.26)
Weighted average shares outstanding for basic EPS (1)	73,044,481	71,446,359	63,990,494	62,522,176
Diluted EPS (1)	\$ 0.88	\$ 0.16	\$ 0.04	\$ (0.26)
Weighted average shares outstanding for diluted EPS (1)	75,814,979	75,184,418	69,375,929	62,522,176
	<u>Three Months Ended December 31, 2003</u>	<u>Three Months Ended September 30, 2003</u>	<u>Three Months Ended June 30, 2003</u>	<u>Three Months Ended March 31, 2003</u>
	(Dollars in thousands, except share data)			
Revenue	\$ 621,257	\$ 423,376	\$ 321,717	\$ 263,724
Operating income (loss)	19,136	(22,676)	21,591	7,779
Net (loss) income	(10,084)	(28,445)	5,172	(1,347)
Basic EPS (1)	(0.16)	(0.49)	0.12	(0.03)
Weighted average shares outstanding for basic EPS (1)	62,532,166	57,486,405	41,683,699	41,651,415
Diluted EPS (1)	\$ (0.16)	\$ (0.49)	\$ 0.12	\$ (0.03)
Weighted average shares outstanding for diluted EPS (1)	62,532,166	57,486,405	42,523,893	41,651,415

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

PART III

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9a. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), including maintenance of (i) records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, and (ii) policies and procedures that provide reasonable assurance that (a) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, (b) receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Company's Board of Directors and (c) prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of the inherent limitations of any system of internal control. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses of judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper overriding of controls. As a result of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission*. Based on our evaluation under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2004. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an 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. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the periodic reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. 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 period covered by this report.

Changes in Internal Controls Over Financial Reporting

No changes in internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CB Richard Ellis Group, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that CB Richard Ellis Group, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2004 of the Company and our report dated March 15, 2005 expressed an unqualified opinion on these financial statements and the financial statement schedule.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 15, 2005

Item 9b. Other Information

On February 3, 2005, the Compensation Committee (the “Compensation Committee”) of our Board of Directors authorized the payment of annual bonus awards to our executive officers with respect to the year ended December 31, 2004. These discretionary awards were approved by the Compensation Committee and utilized achievement of financial targets and/or management objectives to determine individual bonus awards. The following table sets forth the cash payments to each of our named executive officers as defined in Item 402(a)(3) of Regulation S-K for their annual incentive bonus awards for 2004:

<u>Name</u>	<u>Amount of Bonus Payment</u>
Ray Wirta	\$2,028,000
Brett White	\$1,716,000
Kenneth Kay	\$ 512,000
Calvin Frese, Jr.	\$ 752,000
Alan Froggatt	\$ 663,000
Robert Blain	\$ 585,000

Additional information with respect to compensation of our named executive officers is set forth under the heading “Executive Compensation” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders, and is incorporated in Part III, Item 11, by reference.

Item 10. Directors and Executive Officers of the Registrant

The information under the headings “Information About the Board”, “Corporate Governance” and “Stock Ownership” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the headings “Executive Compensation” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information contained under the heading “Stock Ownership” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained under the headings “Executive Compensation” and “Related Party Transactions” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the headings “Principal Accountant Fees and Services” in the definitive Proxy Statement for the Company’s 2005 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. *Financial Statements*

See Index to Consolidated Financial Statements set forth on page 54.

2. *Financial Statement Schedule*

See Schedule II on page 115.

(c) Exhibits

See Exhibit Index beginning on page 117 hereof.

CB RICHARD ELLIS GROUP, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Allowance for Bad Debts
Balance, December 31, 2001	\$11,748
Charges to expense	3,415
Write-offs, payments and other	<u>(4,271)</u>
Balance, December 31, 2002	10,892
Acquired in connection with the Insignia Acquisition	5,061
Charges to expense	3,436
Write-offs, payments and other	<u>(3,208)</u>
Balance, December 31, 2003	16,181
Charges to expense	2,367
Write-offs, payments and other	<u>(3,737)</u>
Balance, December 31, 2004	<u><u>\$14,811</u></u>

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.

CB RICHARD ELLIS GROUP, INC.

By: _____ /s/ RAY WIRTA
Ray Wirta
Chief Executive Officer

Date: March 15, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ RICHARD C. BLUM Richard C. Blum	Chairman of the Board	March 15, 2005
/s/ GIL BOROK Gil Borok	Global Controller (principal accounting officer)	March 15, 2005
/s/ JEFFREY A COZAD Jeffrey A. Cozad	Director	March 15, 2005
/s/ PATRICE MARIE DANIELS Patrice Marie Daniels	Director	March 15, 2005
/s/ BRADFORD M. FREEMAN Bradford M. Freeman	Director	March 15, 2005
/s/ MICHAEL KANTOR Michael Kantor	Director	March 15, 2005
/s/ KENNETH J. KAY Kenneth J. Kay	Chief Financial Officer (principal financial officer)	March 15, 2005
/s/ FREDERIC V. MALEK Frederic V. Malek	Director	March 15, 2005
/s/ JEFFREY S. PION Jeffrey S. Pion	Director	March 15, 2005
/s/ BRETT WHITE Brett White	Director and President	March 15, 2005
/s/ GARY L. WILSON Gary L. Wilson	Director	March 15, 2005
/s/ RAY WIRTA Ray Wirta	Director and Chief Executive Officer (principal executive officer)	March 15, 2005

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
2.1	Amended and Restated Agreement and Plan of Merger, dated as of May 28, 2003, by and among Insignia Financial Group, Inc., CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and Apple Acquisition Corp. (incorporated by reference to Exhibit 2.2 of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC on October 20, 2003)
2.2	Purchase Agreement, dated as of May 28, 2003, by and among Insignia Financial Group, Inc., CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc., Apple Acquisition Corp. and Island Fund I LLC (incorporated by reference to Exhibit 2.3 of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on October 20, 2003)
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)
4.1	Form of Class A common stock certificate of CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 4.1 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(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)
4.3	Anti-Dilution Agreement, dated as of July 20, 2001, by and between CB Richard Ellis Group, Inc. and Credit Suisse First Boston Corporation (incorporated by reference to Exhibit 20 to Amendment No. 9 to Schedule 13D with respect to CB Richard Ellis Services, Inc. filed with the SEC on July 25, 2001)
4.4	Warrant Agreement, dated as of July 20, 2001, by and between CB Richard Ellis Group, Inc., and FS Equity Partners III, L.P. and FS Equity Partners International, L.P. (incorporated by reference to Exhibit 26 to Amendment No. 9 to Schedule 13D with respect to CB Richard Ellis Services, Inc. filed with the SEC on July 25, 2001)
4.5(a)	Indenture, dated as of May 22, 2003, between CBRE Escrow, Inc., and U.S. Bank National Association, as Trustee, for 9 3/4% Senior Notes Due May 15, 2010 (incorporated by reference to Exhibit 4.1 of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on October 20, 2003)

<u>Exhibit</u>	<u>Description</u>
4.5(b)	First Supplemental Indenture, dated as of July 23, 2003, among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., the Subsidiary Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.1(b) of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on December 5, 2003)
4.5(c)	Second Supplemental Indenture, dated as of December 4, 2003, among CB Richard Ellis Services, Inc., Investors 1031, LLC and U.S. Bank National Association (incorporated by reference to Exhibit 4.1(c) of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on December 5, 2003)
4.6(a)	Indenture, dated as of June 7, 2001, among CB Richard Ellis Services, Inc., BLUM CB Corp., CB Richard Ellis Group, Inc., the Subsidiary Guarantors named therein and State Street Bank and Trust Company of California, N.A., as Trustee, for 11 ¼% Senior Subordinated Notes due 2011 (incorporated by reference to Exhibit 17 of the CB Richard Ellis Services, Inc. Schedule 13D filed with the SEC (No. 005-46943) on July 30, 2001)
4.6(b)	First Supplemental Indenture, dated as of July 20, 2001, among CB Richard Ellis Services, Inc., the Subsidiary Guarantors and State Street Bank and Trust Company of California, N.A. (incorporated by reference to Exhibit 10.17(b) of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on December 5, 2003)
4.6(c)	Second Supplemental Indenture, dated as of July 23, 2003, among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., the Subsidiary Guarantors and U.S. Bank National Association as successor to Street Bank and Trust Company of California, N.A (incorporated by reference to Exhibit 10.17(c) of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on December 5, 2003)
4.6(d)	Third Supplemental Indenture, dated as of December 4, 2003 among CB Richard Ellis Services, Inc., Investors 1031, LLC, and U.S. Bank National Association (incorporated by reference to Exhibit 10.17(d) of the CB Richard Ellis Services, Inc. Registration Statement on Form S-4 filed with the SEC (No. 333-190841) on December 5, 2003)
10.1(a)	Amendment Agreement and Waiver, dated as of April 23, 2004, among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., the Lenders named therein and Credit Suisse First Boston, as Administrative Agent (incorporated by reference to Exhibit 10.1(a) 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)
10.1(b)	Amended and Restated Credit Agreement, dated as of April 23, 2004 (“Credit Agreement”), by and among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., the Lenders named therein and Credit Suisse First Boston, as Administrative Agent (incorporated by reference to Exhibit 10.1(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)
10.1(c)	Amendment to Credit Agreement, dated as of November 15, 2004, by and among CB Richard Ellis Services, Inc., CB Richard Ellis Group, Inc., the Lenders named therein and Credit Suisse First Boston, as Administrative Agent (incorporated by reference to Exhibit 10.1(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)
10.2	CB Richard Ellis Group, Inc. 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 25, 2003)*
10.3	2004 Stock Incentive Plan of CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 10.3 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)*

<u>Exhibit</u>	<u>Description</u>
10.4	CB Richard Ellis Services, Inc. Amended and Restated Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.11 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 25, 2003)*
10.5	CB Richard Ellis Services, Inc. Amended and Restated 401(k) Plan, as amended (incorporated by reference to Exhibit 10.12 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 25, 2003)*
10.6	Employment Agreement, dated as of July 20, 2001, between CB Richard Ellis Services, Inc. and Ray Wirta (incorporated by reference to Exhibit 10.13 of the CB Richard Ellis Group, Inc. Registration Statement on Form S-4 (No. 333-70980) filed with the SEC on October 4, 2001)*
10.7	Termination of Employment Agreement, effective as of February 15, 2004, between CB Richard Ellis Services, Inc. and Ray Wirta (incorporated by reference to Exhibit 10.6 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 30, 2004)*
10.8	Full Recourse Note, dated as of April 8, 2004, by and between Ray Wirta and CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 10.9 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)*
10.9	Pledge Agreement, dated as of April 8, 2004, by and between Ray Wirta and CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 10.10 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)*
10.10	Amended and Restated Executive Service Agreement, dated as of June 4, 2003, between CB Richard Ellis Limited and Alan Charles Froggatt (incorporated by reference to Exhibit 10.11 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)*
10.11	Employment Agreement, dated as of January 23, 2001, between CB Richard Ellis Pty Ltd. and Robert Blain (incorporated by reference to Exhibit 10.12 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)*
10.12	CB Richard Ellis Deferred Compensation Plan effective as of August 1, 2004 (incorporated by reference to Exhibit 4.1 of the CB Richard Ellis Group, Inc. Registration Statement on Form S-8 filed with the SEC (No. 333-119362) on September 29, 2004)*
10.13	Agreement, dated as of January 23, 2005, between Alan Froggatt and CB Richard Ellis Limited*, **
10.14	Transition Agreement, dated as of February 22, 2005, by and between Ray Wirta, CB Richard Ellis Group, Inc. and CB Richard Ellis, Inc.*, **
11	Statement concerning Computation of Per Share Earnings (filed as [Note 15] of the Consolidated Financial Statements)
12	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends**
21	Subsidiaries of CB Richard Ellis Group, Inc.**
23.1	Consent of Deloitte & Touche LLP**
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)**
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (adopted pursuant to Section 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 (adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)**

* Denotes a management contract or compensatory plan or arrangement

** Filed herewith

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

DATED as of 23 January 2005

(1) CB RICHARD ELLIS LIMITED

- and -

(2) ALAN CHARLES FROGGATT

AGREEMENT

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

AGREEMENT

This Agreement is dated as of 23 January 2005.

BETWEEN:

1. **CB RICHARD ELLIS LIMITED** (company no. 3350437) whose registered office is at Kingsley House, Wimpole Street, London, W1G 0RE (the “**Company**”); and
2. **ALAN CHARLES FROGGATT** of Bedford Farm House, Portsmouth Road, Thursley, Surrey, GU8 6NN (the “**Executive**”).

WHEREAS:

- (A) The Executive is employed under an Amended and Restated Executive Service Agreement effective as of 17 July 2003 (the “**Employment Agreement**”) between the Executive and Insignia Richard Ellis Limited.
- (B) The parties have agreed that the Executive’s employment with the Company and/or any Group Company (as defined below) shall terminate by mutual agreement on the Employment Termination Date (as defined below).
- (C) The parties have agreed that from the Employment Termination Date until the Appointment Termination Date the Executive shall be appointed as a non-executive director of the Company and/or any Group Company.
- (D) The parties have entered into this Agreement to:
 - (a) record and implement the terms upon which they have each agreed to settle and compromise all outstanding claims which the Executive has or may have arising out of or in connection with or as a consequence of his employment or the termination thereof or otherwise against the Company or any Group Company and its or their respective directors, officers, employees direct or indirect shareholders or agents (whether past or present) and in particular those statutory complaints which the Executive intimates in this Agreement; and
 - (b) record the terms of the Executive’s appointment as a non-executive director of the Company and/or any Group Company (the “**Appointment**”).
- (E) The Company is entering into this Agreement for itself and as agent for and trustee of all Group Companies and is duly authorised to do so. The parties intend that each Group Company should be able to enforce in its own right the terms of this Agreement which expressly or impliedly confer a benefit on that company.

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IT IS AGREED as follows:-

1. INTERPRETATION

1.1 In this Agreement the following expressions shall, unless the context otherwise requires, have the following meanings:-

“**2003 Option Agreement**” means the Option Agreement between CBRE Holding, Inc. and the Executive effective as of 16 September 2003;

“**2004 Option Agreement**” means the Option Agreement between CB Richard Ellis Group, Inc. and the Executive effective as of 22 September 2004;

“**Appointment**” has the meaning given to it in Recital (D)(b);

“**Appointment Termination Date**” means 30 September 2006;

“**Board**” means the board of directors of the Company;

“**Employment Agreement**” has the meaning given to it in Recital (A);

“**Employment Termination Date**” means 30 June 2005; and

“**Group Company**” means the holding company of the Company and all subsidiary and associated companies of the holding company of the Company (“**subsidiary**” and “**holding company**” having the meanings given to them in section 736 of the Companies Act 1985 as amended and “**associated company**” meaning a company which is treated as such for the purposes of Statement of Standard Accounting Practice No. 1 of the Institute of Chartered Accountants in England and Wales) and references herein to “**Group Companies**” shall be construed accordingly.

1.2 Words and expressions used in this Agreement but not defined herein shall, unless the context requires otherwise, have the same meaning given to them in the Employment Agreement.

1.3 The headings in this Agreement are inserted for convenience only and shall not affect its construction.

1.4 Any reference to a statutory provision shall be construed as a reference to any statutory modification or re-enactment thereof (whether before or after the date hereof) for the time being in force.

2. NOVATION OF EMPLOYMENT AGREEMENT

2.1 As from the date of this Agreement, the Company undertakes to perform the Employment Agreement and be bound by its terms in every way as if the Company had been a party to it in place of Insignia Richard Ellis Limited.

2.2 The Executive hereby:

2.2.1 releases Insignia Richard Ellis Limited from its obligations under the Employment Agreement;

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- 2.2.2 releases Insignia Richard Ellis Limited from all future claims and demands whatsoever in respect of the Employment Agreement; and
- 2.2.3 accepts the liability of the Company under the Employment Agreement from the date of this Agreement.

3. EMPLOYMENT TERM

The Executive shall continue to serve the Company as Chief Executive on the terms provided in the Employment Agreement as varied by this Agreement (the “**Employment**”).

4. SHARE OPTIONS

For the avoidance of doubt, nothing contained in this Agreement shall vary the provisions of the 2003 Option Agreement and/or the 2004 Option Agreement which Option Agreements shall continue in full force and effect. If the Employment is terminated other than in accordance with Clauses 6.1.4.1 and 6.1.5 below or the Appointment is terminated prior to the Appointment Termination Date other than in accordance with Clause 10.1 below then the vesting of the Executive’s Options shall be accelerated so that such Options or such part thereof which would have vested up to and including the Appointment Termination Date shall vest immediately and all other Options shall, to the extent not then vested, be cancelled by CB Richard Ellis Group, Inc. without consideration.

5. BONUS

5.1 The Employment Agreement is varied as follows.

- 5.1.1 The Executive shall be entitled to participate in the Executive Bonus Plan of CB Richard Ellis, Inc. (the “**Bonus Plan**”) (in accordance with the rules thereof for the time being) up to and including 30 September 2005.
- 5.1.2 If termination of the Employment in accordance with Clause 6.1.1 below renders the Executive ineligible to participate in the Bonus Plan from the Employment Termination Date with the result that the Executive’s Award (as defined in the Bonus Plan) for 2005 is forfeited as of the Employment Termination Date pursuant to Section 4.5(a) of the Bonus Plan, the Company agrees to pay to the Executive an amount equivalent to 75% of the Award for 2005 which the Executive would have received under the Bonus Plan if he had remained eligible to participate in the Bonus Plan in 2005 in accordance with the terms of the Bonus Plan (which will be based on the same principles as in 2004 with the exception that the target for 2005 against which company performance is measured will be set by the Company and/or any Group Company at its and/or their absolute discretion, but so that the criteria applicable to the Executive’s Award are set on the same basis as those applicable to the other participants), such amount to be payable as soon as the amount of the Awards for 2005 is determined and in any event not later than 31 March 2006.

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- 5.2 The Executive acknowledges and agrees that other than as set out in Clause 5.1 above, he has no further entitlement to any bonus under the Bonus Plan.
- 5.3 The Executive may, at the absolute discretion of the Managing Director of the Company, be invited to participate in the 2004 UK bonus pool of the Company. If the Executive does so participate, any amount payable to him shall be at the absolute discretion of the Managing Director of the Company. For the avoidance of doubt, nothing in this Agreement gives rise to any entitlement on the part of the Executive or obligation on the part of the Company, whether express or implied, regarding the Executive's participation in the 2004 UK bonus pool.

6. EMPLOYMENT TERMINATION

- 6.1 The Employment Agreement is varied as follows.
 - 6.1.1 Without prejudice to Clause 11 of the Employment Agreement and subject to Clauses 6.1.2-6.1.5 below, the Employment shall terminate by mutual agreement on the Employment Termination Date.
 - 6.1.2 The Executive may give to the Company 6 months' notice in writing to terminate the Employment, such notice to be given on or before 31 March 2005.
 - 6.1.3 If the Executive gives notice in accordance with Clause 6.1.2 above, the Employment will terminate on the expiry of the notice or the Employment Termination Date, whichever is the earlier, but the Company will pay to the Executive payments in lieu of salary, bonus and contractual benefits that the Executive would have received until the Employment Termination Date.
 - 6.1.4 The Company may terminate the Employment at any time prior to the Employment Termination Date by giving written notice to the Employee. The Executive's entitlements on termination of the Employment are as follows:
 - 6.1.4.1 If the Company terminates the Employment because in the reasonable opinion of the Company and/or any Group Company the Executive fails or neglects efficiently and diligently to discharge his duties to and to promote and protect the interests and reputation of the Company and/or any Group Company or does anything that is harmful to the Company and/or any Group Company, the Company will pay to the Executive payments in lieu of salary, bonus and contractual benefits that the Executive would have received had the Employment continued until 30 September 2005, save that if the Company terminates the Employment after the Executive has given notice in accordance with Clause 6.1.2 above the Company will pay to the Executive payments in lieu of salary, bonus and contractual benefits that the Executive would have received had the Employment continued during the 6 months' notice period or until 30 September 2005, whichever is the earlier.

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6.1.4.2 If the Company terminates the Employment other than as set out in Clause 6.1.4.1 above or Clause 6.1.5 below, the Company will pay to the Executive payments in lieu of salary, bonus and contractual benefits that the Executive would have received had the Employment continued until the Employment Termination Date and the Appointment continued until the Appointment Termination Date.

6.1.5 For the avoidance of doubt, nothing in this Agreement shall affect the Company's right to terminate the Employment summarily in accordance with Clause 11 of the Employment Agreement.

6.2 Save where Clause 5.1.2 above applies, for the purposes of determining the value of any bonus entitlement or of pay in lieu of any bonus entitlement under Clause 6.1 above, the relevant amount will be the average of the bonuses awarded to the Executive in respect of the 3 previous financial years prior to the date of termination of the Employment.

6.3 The Executive will not be entitled to any of the benefits or items of compensation described in Clause 6.1 above if he is dismissed summarily in accordance with Clause 11 of the Employment Agreement.

6.4 This Clause 6 replaces the provisions in Clause 2.1 and 2.3 of the Employment Agreement.

6.5 The Company will issue the Executive with his form P45 on the Employment Termination Date.

6.6 In accordance with Clause 13.2 of the Employment Agreement, the Executive shall deliver all documents to the Board on the Employment Termination Date, save that the Executive shall not be required to deliver to the Board any documents which will be required by him during the Appointment for the purposes of carrying out the Appointment.

7. RESTRICTIONS AFTER TERMINATION OF EMPLOYMENT

7.1 Notwithstanding the Executive's subsequent Appointment, the restrictions set out in Clause 10 of the Employment Agreement shall apply, save that they shall not operate so as to prevent the Executive carrying out the Appointment.

7.2 For the avoidance of doubt and without prejudice to the provisions of Clause 10 of the Employment Agreement, the Executive may be engaged or concerned in, whether directly or indirectly paid or unpaid, the conduct of or be or become an employee, executive, director, agent, partner or consultant of or assisting or having any financial interest in, any other actual or prospective business, company or firm engaged in recruitment and/or management consulting.

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8. RESIGNATION AS EXECUTIVE DIRECTOR AND OFFICER

- 8.1 Subject to the Appointment, at the Employment Termination Date the Executive shall at the request of the Company resign and do everything the Company may require (including executing documents) to resign as an executive director and/or officer of the Company and of all Group Companies by signing letters of resignation in the form set out in Schedule 1 to this Agreement.
- 8.2 The Executive confirms that he has no claims against the Company and/or any Group Company and/or any of their respective directors, officers, employees, direct or indirect shareholders and agents arising from such resignations.

9. APPOINTMENT TERMS

- 9.1 If the Employment has not been terminated and/or notice to terminate the Employment has not been given by either the Company or the Executive prior to the Employment Termination Date, the Executive shall serve as a non-executive director of the Company and/or any Group Company effective as from the Employment Termination Date.
- 9.2 The terms of the Appointment are set out in this Clause 9.2.
 - 9.2.1 The Appointment shall commence on the Employment Termination Date.
 - 9.2.2 The Executive shall be expected to commit up to ten hours per week to the Appointment to perform tasks at the request of the EMEA Divisional President, the President and/or the Chief Executive Officer of CB Richard Ellis Inc.
 - 9.2.3 For the avoidance of doubt, it is hereby agreed and acknowledged that during the Appointment the Executive shall be a Consultant as defined in Section 2(j)(ii) of the 2004 Stock Incentive Plan of CB Richard Ellis Group, Inc.
 - 9.2.4 By accepting the Appointment, the Executive hereby confirms that he is able to allocate sufficient time to the Appointment up to the maximum stated in Clause 9.2.2 above. Save in the circumstances set out in Clause 9.2.5 below, the Executive must seek the agreement in writing of the board before he undertakes additional commitments that might affect the time that he is able to devote to the Appointment.
 - 9.2.5 Without prejudice to the provisions of Clause 10 of the Employment Agreement, the Company hereby permits the Executive during the term of the Appointment to be engaged or concerned in, whether directly or indirectly paid or unpaid, the conduct of or be or become an employee, executive, director, agent, partner or consultant of or assist or have any financial interest in, any other actual or prospective business, company or firm engaged in recruitment and/or management consulting.
 - 9.2.6 The Executive must declare to the board his business interests other

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than those of the Company and any potential conflicts of interest between his other business interests and those of the Company as soon as he becomes aware of the same and before he pursues such competing interest.

- 9.2.7 From the Employment Termination Date until 30 September 2005 the Executive shall:
- 9.2.7.1 be paid a prorated fee at the rate of £250,000 gross per annum, subject to deduction of income tax and national insurance contributions under the PAYE system, payable by bank credit transfer in equal monthly installments in arrears on or before the last working day of each calendar month:
 - 9.2.7.2 be entitled to participate in the permanent health insurance, life assurance and medical expenses insurance schemes set out in Clause 6.4 of the Employment Agreement and to be covered (at the Executive's expense) by the Company's motor fleet insurance policy, save that if the terms and conditions of such schemes prevent the Executive from participating in such schemes then the Company and/or any Group Company will reimburse the Executive a market-rate premium for his participation in schemes providing equivalent benefits to such schemes at no extra expense to the Executive.
- 9.2.8 From 1 October 2005 until the Appointment Termination Date the Executive shall:
- 9.2.8.1 not be required to perform the services set out in Clause 9.2.2 above but be available to provide consulting and advice as requested by the President of CB Richard Ellis Inc. and agreed with the Executive and at a rate to be agreed with them from time to time prior to any service being performed;
 - 9.2.8.2 be entitled to participate in the permanent health insurance, life assurance and medical expenses insurance schemes set out in Clause 6.4 of the Employment Agreement and to be covered (at the Executive's expense) by the Company's motor fleet insurance policy, save that if the terms and conditions of such schemes prevent the Executive from participating in such schemes then the Company and/or any Group Company will reimburse the Executive a market-rate premium for his participation in schemes providing equivalent benefits to such schemes at no extra expense to the Executive.
- 9.2.9 During the period of the Appointment the Executive shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly authorized by the board and incurred in or about the performance of his duties as a non-executive director or consultant, which expenses shall be evidenced in such manner as the board may specify from time to time.

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- 9.2.10 The Executive shall not during the period of the Appointment or thereafter use or divulge or communicate to any person other than with proper authority any of the trade secrets or other confidential information of or relating to the Company and/or any Group Company. Confidential information includes but is not limited to details of customers, potential customers, consultants, suppliers, potential suppliers, designs, product details, future product details, prices, discounting arrangements, specific product applications, existing trade arrangements, terms of business and those in the course of negotiation, operating systems, pricing and fee structures, financial information, inventions and research and development activities.
- 9.2.11 The Executive shall not during the period of the Appointment make otherwise than for the benefit of the Company and/or any Group Company any records (whether recorded on paper, computer memory or discs or otherwise) relating to any matter within the scope of the business of the Company and/or any Group Company or concerning any of its or their dealings or affairs nor either during the Appointment or thereafter use or permit to be used any such records otherwise than for the benefit of the Company and/or any Group Company, it being agreed by the parties that all such records (and copies thereof) in the possession or control of the Executive shall be the property of the Company and/or any Group Company and shall be handed over by the Executive to the Company and/or any Group Company from time to time and on demand and in any event upon the termination of the Appointment.
- 9.2.12 The Executive shall not during the Appointment speak in public or write any article for publication on any matter connected with or relating to the business of the Company and/or any Group Company without first obtaining the approval of the President and/or the EMEA Divisional President of CB Richard Ellis Inc.
- 9.3 The Executive hereby acknowledges and agrees that the terms of the Appointment set out in this Agreement constitute a contract for services and that nothing in this Agreement or otherwise is intended by the Executive or by the Company and/or any Group Company to constitute a contract of service or to create any relationship of employment.

10. APPOINTMENT TERMINATION

- 10.1 The Appointment shall terminate on the Appointment Termination Date unless otherwise terminated by the Company and/or any Group Company giving one month's written notice to the Executive, such notice not to take effect prior to 1 January 2006. Notice shall only be given if in the reasonable opinion of the Company and/or any Group Company the Executive fails or neglects efficiently and diligently to discharge his duties to and to promote and protect the interests and reputation of the Company and/or any Group Company or does anything that is harmful to the Company and/or any Group Company.
- 10.2 The Executive acknowledges and agrees that the covenants set out below are

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reasonably necessary for the proper protection of the legitimate business interests of the Company and any “**Relevant Group Company**” (as defined below). The Executive covenants to the Company and all Relevant Group Companies (for themselves and as trustee for each of the Group Companies) that he shall not for the following periods after the termination of the Appointment howsoever arising (but excluding repudiatory breach of this Agreement by the Company) directly or indirectly, either alone or jointly with or on behalf of any person, firm, company, or entity and whether on his own account or as principal, partner, shareholder, director, executive, consultant or in any other capacity whatsoever:-

- 10.2.1 for 12 months following the Appointment Termination Date or such earlier termination of the Appointment by the Company and/or any Group Company in the “**Relevant Territory**” (as defined below) and in competition with the Company and/or any Relevant Group Company, save in relation to the business of providing recruitment services, engage, assist or be interested in any undertaking which provides services similar to those provided by the Company and/or any Relevant Group Company in the 24 months prior to the Appointment Termination Date and with which the Executive was concerned in the said period of 24 months;
- 10.2.2 for 12 months following the Appointment Termination Date or such earlier termination of the Appointment by the Company and/or any Group Company in the Relevant Territory solicit or interfere with or endeavour to entice away from the Company and/or any Relevant Group Company any person, firm, company or entity who was a client of the Company and/or any Relevant Group Company in the 24 months prior to the Appointment Termination Date and with whom the Executive was concerned or had personal contact in the said period of 24 months;
- 10.2.3 for 12 months following the Appointment Termination Date or such earlier termination of the Appointment by the Company and/or any Group Company in the Relevant Territory be concerned with the supply of services, other than the provision of recruitment services, to any person, firm, company or entity which was a client of the Company and/or any Relevant Group Company in the 24 months prior to the Appointment Termination Date where such services are identical or similar to and in competition with those services supplied by the Company and/or any Relevant Group Company in the said 24 month period, with which supply the Executive was concerned in the said period of 24 months;
- 10.2.4 for 12 months following the Appointment Termination Date or such earlier termination of the Appointment by the Company and/or any Group Company offer to employ or engage or solicit the employment or engagement of any person who immediately prior to the Appointment Termination Date was a senior Executive or consultant of the Company and/or any Relevant Group Company and with whom the Executive had significant working contact in the 24 months prior to the

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Appointment Termination Date (whether or not such person would commit any breach of their contract of employment or engagement by reason of leaving the service of such company); and

- 10.2.5 represent himself as being in any way connected with or interested in the business of the Company and/or any Relevant Group Company.
- 10.3 Each of the obligations contained in this Clause constitutes an entire separate and independent restriction on the Executive and if any part is found to be unenforceable the remainder will remain valid and enforceable.
- 10.4 While the restrictions are considered by the parties to be fair and reasonable in the circumstances, it is agreed that if any such restrictions should be judged to be void or ineffective for any reason but would be treated as valid and effected if part of the wording thereof were deleted the said restrictions shall apply with such modifications as will be necessary to make them valid and effective.
- 10.5 The Executive agrees that he will at the request and cost of the Company and/or any Relevant Group Company enter into a direct agreement with any of the Group Companies under which he will accept restrictions corresponding to the restrictions contained in this clause (or such as will be appropriate in the circumstances) in relation to such Group Company.
- 10.6 For the purposes of this clause:
- 10.6.1 a “**Relevant Group Company**” means any of the Group Companies for which the Executive has performed services or in which he has held office during the 24 months immediately preceding the Appointment Termination date and, if applicable, their predecessors in business during such 24 month period; and
- 10.6.2 “**Relevant Territory**” means the United Kingdom.

11. OBLIGATIONS UPON TERMINATION OF APPOINTMENT

- 11.1 Upon termination of the Appointment howsoever arising the Executive shall:
- 11.1.1 at any time or from time to time thereafter upon the request of the Company, resign and do everything the Company and/or any Group Company may require (including executing documents) to resign from:
- (i) all offices held in the Company and/or any Group Company or any of the Group Companies; and
 - (ii) any office in any other company acquired by reason of or in connection with the Appointment;
- by signing letters of resignation in the form set out in Schedule 2 to this Agreement and should he fail to do so the Company and/or any Group Company is hereby irrevocably appointed to be the Executive’s Attorney in his name and on his behalf to execute any documents and to do any things necessary or requisite to give effect to this Clause; and

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- 11.1.2 deliver to the board all documents (including, but not limited to, correspondence, lists of clients or customers notes, memoranda, plans, drawings and other documents or whatsoever nature and all copies thereof) made or compiled or acquired by the Executive during the Appointment and concerning the business, finances or affairs of the Company and/or any Group Company or its or their clients.
- 11.2 The Executive confirms that he has no claims against the Company and/or any Group Company and/or any Group Company and/or any of their respective directors, officers, employees, direct or indirect shareholders and agents arising from such resignations

12. DATA PROTECTION

- 12.1 The Executive hereby confirms that the Company and/or any Group Company will be entitled to process (within the meaning of the Data Protection Act 1998 (and any amending or subordinate legislation passed from time to time)) in any way it reasonably considers fit any data and other information concerning the Executive provided that the Company and/or any Group Company shall exercise all reasonable care to treat such data and information with the degree of confidentiality that would normally be expected of a reasonable and responsible data controller engaged in the processing of such data or information.
- 12.2 The Executive hereby consents to the passing of any such data and information by the Company and/or any Group Company to any of the Group Companies whether within or outside the European Union or to any associated companies subject to the conditions set out above.

13. WARRANTIES AND REPRESENTATIONS

- 13.1 The Executive hereby warrants and represents to the Company that as at the date of this Agreement he:-
 - 13.1.1 has not committed any breach of duty (including fiduciary duty) owed to the Company or any Group Company;
 - 13.1.2 has not done or failed to do anything amounting to a repudiatory breach of the express or implied terms of the Employment;
 - 13.1.3 has not taken court, tribunal or other proceedings against the Company or any Group Company.
- 13.2 The Executive hereby warrants and represents to the Company that on the Employment Termination Date, he will reconfirm the warranties set out in Clauses 13.1.1 and 13.1.3 above.
- 13.3 The Company hereby warrants and represents to the Executive that it has no present claims against the Executive and knows of no past or current circumstances which might give rise to any such claim in the future.

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14. SETTLEMENT AND WAIVER

14.1 The Executive agrees to accept the arrangements contained in this Agreement in full and final settlement all and any claims including, for the avoidance of doubt any claims in respect of any share options granted to the Executive by the Company or any Group Company or other rights of action whatsoever and howsoever arising (whether under the laws of England and Wales, those of the European Union or any other law, and whether such claims are known or unknown to the parties and whether or not they are or could be in the contemplation of the parties at the time of signing this Agreement, including claims which as a matter of law do not at the date of this Agreement exist and whose existence cannot currently be foreseen and any claims or rights of action arising from a subsequent retrospective change or clarification of the law) which the Executive now has or may in the future have against the Company or any Group Company or any director, officer, employee, direct or indirect shareholder or agent (whether past or present) of the Company or any Group Company and the Executive hereby agrees to waive any such claims or rights of action. There will be excluded from this clause (i) any personal injury claims of which the Executive is unaware as at signing this Agreement (and the Executive hereby warrants that he is not aware of any circumstances that could give rise to a personal injury claim against any of the foregoing in the future); and (ii) any claims for pension rights accrued to the Employment Termination Date. For the avoidance of doubt, but not by way of limitation, this settlement compromises all employment rights under European law and all statutory employment protection rights under English law including the following (all as the same may be amended from time to time, and where the reference is to a statute it also includes all regulations made thereunder from time to time):

- 14.1.1 any claim whatsoever in respect of notice;
- 14.1.2 any claim(s) under or arising out of rights or obligations conferred by the Equal Pay Act 1970;
- 14.1.3 any claim(s) under or arising out of rights or obligations conferred by the Sex Discrimination Act 1975;
- 14.1.4 any claim(s) under or arising out of rights or obligations conferred by the Race Relations Act 1976;
- 14.1.5 any claims under or arising out of rights or obligations conferred by the Transfer of Undertakings (Protection of Employment) Regulations 1981;
- 14.1.6 any claim(s) under or arising out of rights or obligations conferred by the Trade Union and Labour Relations (Consolidation) Act 1992;
- 14.1.7 any claim(s) under or arising out of rights or obligations conferred by the Disability Discrimination Act 1995;
- 14.1.8 any claim(s) under or arising out of rights or obligations conferred by the Employment Rights Act 1996;

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- 14.1.9 any claim(s) under or arising out of rights or obligations conferred by the Working Time Regulations 1998;
 - 14.1.10 any claim(s) under or arising out of rights or obligations conferred by the National Minimum Wage Act 1998;
 - 14.1.11 any claim(s) under or arising out of rights or obligations conferred by the Employment Relations Act 1999;
 - 14.1.12 any claim(s) under or arising out of rights or obligations conferred by the Transnational Information and Consultation of Employees Regulations 1999;
 - 14.1.13 any claim(s) under or arising out of rights or obligations conferred by the Employment Act 2002;
 - 14.1.14 any claim(s) under or arising out of rights or obligations conferred the Flexible Working (Eligibility Complaints and Remedies) Regulations 2002;
 - 14.1.15 any claim(s) under or arising out of rights or obligations conferred the Flexible Working (Procedural Requirements) Regulations 2002;
 - 14.1.16 any claim(s) under or arising out of rights or obligations conferred by the Employment Equality (Religion or Belief) Regulations 2003;
 - 14.1.17 any claim(s) under or arising out of rights or obligations conferred by the Employment Equality (Sexual Orientation) Regulations 2003;
 - 14.1.18 any claim(s) under or arising out of rights or obligations conferred by the Employment Act 2002 (Dispute Resolution) Regulations 2004;
 - 14.1.19 any claim(s) in respect of which a Conciliation Officer is authorised to act; and
 - 14.1.20 any claims arising under any directive or other legislation applicable in the United Kingdom by virtue of the United Kingdom's membership of the European Union.
- 14.2 To give full effect to the provisions of Clause 14.1 above the Executive hereby agrees to refrain from instituting or continuing any proceedings before any court or tribunal or arbitral body or any other body in any part of the world in relation to any claims or complaints referred to in Clause 14.1 above.
- 14.3 The Executive warrants and agrees that:
- 14.3.1 he has received independent legal advice as to the terms and effect of this Agreement and in particular as to its effect on his ability to pursue claims before an Employment Tribunal from Patrick Burgess of Jones Day, 21 Tudor Street, London, EC4Y 0DJ;
 - 14.3.2 Patrick Burgess is covered by a contract of insurance, or an indemnity

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provided for members of a profession or professional body covering the risk of a claim by the Executive in respect of loss arising in consequence of the advice;

- 14.3.3 at the time of giving the advice referred to in 14.2.1, Patrick Burgess was a “qualified lawyer” and “independent” as defined in Section 203(4) and Section 203(3B) respectively of the Employment Rights Act 1996; and
- 14.3.4 he will procure that Patrick Burgess send a letter on execution of this Agreement to the Company’s solicitors, Morrison & Foerster MNP, in the form set out in Schedule 3.

15. NO ADMISSION OF LIABILITY

This Agreement does not constitute an admission by the Company or any Group Company that it or any Group Company has breached any law or regulation, or that the Executive has any claims against the Company or any Group Company, or its or their respective directors, officers, employees, direct or indirect shareholders or agents (whether past or present) of the Company or any Group Company.

16. CONFIDENTIALITY

16.1 In consideration of the covenant on the part of Company set out in Clause 16.2, the Executive agrees and undertakes:-

- 16.1.1 to keep confidential and not to make or publish any statement to any person, firm or company concerning this Agreement or the circumstances surrounding the termination of the Employment and/or the Appointment, provided that the Executive will not be prevented from making a disclosure:
 - (i) for the purposes of seeking legal or accountancy advice in relation to this Agreement provided his professional adviser is bound by a duty of confidence;
 - (ii) to the proper authorities as required by law;
 - (iii) to any actual or prospective employer; and
 - (iv) to his wife or partner provided such person agrees to maintain confidentiality
- 16.1.2 not to make or publish or cause to be made or published any statement or remark in any circumstances or do anything in relation to Company or any Group Company or their respective directors, officers, employees and direct or indirect shareholders which harms or is intended to harm or may harm the business or prospects of Company or any Group Company or which damages or lowers or is intended to damage or lower or may damage or lower the reputation of Company or any Group Company or their respective directors, officers, employees and direct or indirect shareholders. In particular, but not by

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

way of limitation, the Executive agrees and acknowledges that any statement, remark or action by the Executive which does not indicate unqualified support for whoever succeeds him as Chief Executive of the Company will constitute a breach of this Clause 16.1.2.

16.2 Save as may be required by law or regulatory requirements, the Company agrees to keep the terms and conditions of this Agreement confidential.

17. ENTIRE AGREEMENT

17.1 Other than where expressly stated to the contrary in this Agreement, this Agreement and the documents referred to herein constitute the entire agreement relating to the Executive's Employment and Appointment and the termination of the same and is in substitution for and replaces any previous agreements or arrangements between the Executive and the Company and any Group Company which shall be deemed to have been terminated by mutual consent as from the date of this Agreement and the Executive hereby waives with effect from the date of this Agreement any and all claims which he may have arising out of or in connection with any such previous agreements or arrangements.

17.2 It is agreed that (i) no party has entered into this Agreement in reliance upon any representation, warranty or undertaking which is not set out or referred to in this Agreement; (ii) in the absence of fraud, no party will have any remedy in respect of any untrue statement, made to it or its representatives or agents, upon which it or they relied, and such party's only remedy will be for breach of contract; and (iii) this Clause 17 shall not exclude any liability for fraudulent misrepresentation.

18. THIRD PARTIES

The terms, representations, warranties and agreements of the parties set forth in this Agreement are not intended for, nor shall they be for the benefit of or enforceable by, any third party other than the Group Companies.

19. WITHOUT PREJUDICE

Notwithstanding that this Agreement is marked "Without Prejudice and Subject to Contract", when it is signed and dated by the Executive it will become open and binding.

20. GOVERNING LAW AND JURISDICTION

This Agreement shall be governed by and construed in accordance with the laws of England and Wales and the courts of England and Wales shall have non-exclusive jurisdiction to deal with disputes arising from or touching upon this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first written above.

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

SCHEDULE 1

Letter of Resignation

Please see attached.

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

Letter of Resignation

Private and Confidential

TO: The Directors
[LIST COMPANY/IES]

[] 2005

Dear Sirs

Resignation

I hereby resign as an Executive and from all my offices and directorships (if any) with the above-listed companies. My resignations are to be with effect from [] 2005.

I hereby confirm that I have no claims against the above companies and any of their directors, officers, employees and direct or indirect shareholders arising from such resignations.

Please arrange for particulars of my resignations to be filed with the appropriate bodies.

Yours faithfully

ALAN CHARLES FROGGATT

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

SCHEDULE 2

Letter of Resignation

Please see attached.

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

Letter of Resignation

Private and Confidential

TO: The Directors
[LIST COMPANY/IES]

[] 2006

Dear Sirs

Resignation

I hereby resign as non-executive director and from all my offices and directorships (if any) with the above-listed companies. My resignations are to be with effect from [] 2006.

I hereby confirm that I have no claims against the above companies and any of their directors, officers, employees and direct or indirect shareholders arising from such resignations.

Please arrange for particulars of my resignations to be filed with the appropriate bodies.

Yours faithfully

ALAN CHARLES FROGGATT

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

SCHEDULE 3

Adviser's Letter

Please see attached.

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

ON JONES DAY HEADED PAPER

TO: MORRISON & FOERSTER MNP

23 January 2005

Dear Sirs

I refer to the agreement made between my client, Alan Charles Froggatt (“**Mr Froggatt**”) and your client, Insignia Richard Ellis Limited (“**the Company**”) dated 23 January 2005, a copy of which is attached (“**the Agreement**”).

I confirm that:

1. I am a qualified lawyer as defined by section 203(4) of the Employment Rights Act 1996.
2. I am independent of the Company.
3. I have advised Mr Froggatt as to the terms and effect of the Agreement and, in particular, that Mr Froggatt will be precluded from bringing a claim under the legislation set out in Clause 14 of the Agreement.
4. There is now in force and there was at the time I gave Mr Froggatt the advice referred to above, a contract of insurance or appropriate indemnity as required by section 203(3)(d) of the Employment Rights Act 1996 covering the risk of a claim by Mr Froggatt in respect of loss arising in consequence of the advice referred to in paragraph 3 above.

Yours sincerely

Patrick Burgess

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

Executed for and on behalf of
INSIGNIA RICHARD ELLIS LIMITED
acting by a duly authorised officer:

Director

Dated

Signed and delivered as a deed by
ALAN CHARLES FROGGATT

Dated

Witnessed by:-

Dated

Name

Address

TRANSITION AGREEMENT

THIS TRANSITION AGREEMENT (this "Agreement"), is made and entered into as of the 22nd day of February, 2005, effective as of the Effective Date (as such term is hereinafter defined), by and between CB RICHARD ELLIS GROUP, INC. and CB RICHARD ELLIS, INC. (collectively, the "Company"), and RAYMOND E. WIRTA ("Executive").

WITNESSETH:

WHEREAS, the Company currently employs Executive as its Chief Executive Officer, and Executive currently serves as a member of the Company's Board of Directors (the "Board of Directors");

WHEREAS, Executive wishes to resign from the position of Chief Executive Officer on the Effective Date but continue as an employee of the Company in a different capacity; and

WHEREAS, Executive and the Company deem it to be in their respective best interests to enter into this Agreement upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements contained herein, it is hereby agreed as follows:

1. Effective Date; Pro Rata Bonus.

(a) From the date of this Agreement until the later of June 2, 2005 or such other date on which the 2005 annual meeting of the Company's shareholders is held and the Company designates a new Chief Executive Officer (the "Trigger Date"), the Company agrees to continue to pay to Executive his current base salary, payable in regular installments in accordance with the Company's normal payroll procedures, and to continue Executive's participation in current bonus programs and benefit plans, according to the terms of such plans and programs as they may exist from time to time. On the Trigger Date, Executive shall submit a letter of resignation to the Board of Directors of the Company (the "Board of Directors") to resign from the position of Chief Executive Officer and this Agreement shall become effective on the date (the "Effective Date") immediately following the Trigger Date; provided, however, that in the event the Board of Directors refuses to accept Executive's resignation and Executive is reinstated as the Chief Executive Officer on the Trigger Date, this Agreement shall become null and void and the current terms of Executive's employment shall continue in full force in effect; and further provided that if the Board of Directors terminates the employment of Executive without Cause at any time before the Trigger Date, the Effective Date shall be the day before the date of such termination.

(b) Executive shall be entitled to receive a pro-rata portion of the annual bonus (“Pro-Rata Bonus”) which he would have earned if he were employed as the Chief Executive Officer of the Company for the entire 2005 calendar year, with such pro-rata portion being calculated as the product of the annual bonus multiplied by a fraction, the numerator of which is the number of days employed as the Chief Executive Officer of the Company in 2005 and the denominator of which is 365 days. All stock options and “Equity Incentive Plan” shares issued to Executive prior to the Effective Date shall become fully vested and exercisable as of the Effective Date.

2. Duties. The Company hereby agrees to employ Executive as its Vice Chairman, and Executive agrees to render services to the Company as a member of the Board of Directors, for the “Employment Period” (as such term is hereinafter defined); provided, however, that in the event the Executive shall be removed from the Board of Directors, Executive shall nonetheless continue as an employee for the remainder of the Employment Period. Executive agrees to use his best efforts during the Employment Period to protect, encourage and promote the interests of the Company and its subsidiaries and affiliates (collectively, the “Affiliates”). During the Employment Period, Executive shall also perform such other duties consistent with the offices held by Executive, including overseas business travels, as may be reasonably assigned to him from time to time by the Chief Executive Officer of the Company, and will devote substantial time and attention to such duties, except while on sick leave, reasonable vacations and excused leaves of absence; provided, however, that Executive shall not be required to be present in the Company’s offices or travel in excess of 40 hours per month.

3. Compensation and Benefits.

(a) The Company agrees to pay to Executive a base salary during the Employment Period at a rate equal to two hundred fifty thousand dollars (\$250,000) per year (“Base Salary”), payable in regular installments in accordance with the Company’s normal payroll procedures.

(b) During the Employment Period, Executive shall be eligible to participate in the life, health, long-term disability insurance, deferred compensation plans and 401(k) plan of the Company (the “Company Benefit Plans”) available to other employees of the Company.

(c) The Company will reimburse Executive for reasonable business expenses in performing Executive’s duties and promoting the businesses of the Company and its Affiliates, including, without limitation, reasonable entertaining expenses, automobile expenses, and travel and lodging, when incurred in connection with business matters of the Company or an Affiliate assigned to Executive from time to time. The cost of these items shall be borne by the Company upon presentation of an itemized expense voucher.

4. Employment Period. As used herein, the phrase “Employment Period” shall mean the period commencing on the Effective Date and ending on the 2nd anniversary thereof.

Notwithstanding the foregoing, the Employment Period shall expire on the first to occur of the following:

(a) Termination without Cause. If the Employment Period is terminated by the Company without Cause, Executive shall be entitled to continue to receive his Base Salary for the period beginning on the date of such termination and ending on the 2nd anniversary of the Effective Date. The payments of Executive's Base Salary by the Company under this Section 4(a) will be made periodically in the same amounts and at the same intervals as if the Employment Period had not ended and Executive's Base Salary otherwise continued to be paid. In addition, (i) all unvested stock options and unvested "Equity Incentive Plan" shares previously granted to Executive shall automatically vest in full and (ii) the Company shall offer continued medical benefit coverage as required by law; provided that Executive's obligation to pay premiums for such coverage shall be limited to the employee premiums payable by similarly situated active employees until the earlier of (A) the expiration of the Employment Period and (B) the date Executive becomes employed by another party. Following the expiration of such period of limited premiums, the remaining coverage shall be subject to payment by Executive of any applicable premiums. Executive shall not be required to mitigate the amount of any payment or benefit provided for under this Section 4(a) by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4(a) be reduced by any compensation earned by Executive as a result of other employment. Payment to Executive pursuant to this Section 4(a) shall constitute the entire obligation of the Company for severance pay and full settlement of any claim for severance pay under law or in equity that Executive might otherwise assert against the Company or any of its employees, officers or directors on account of the Company's termination of the Employment Period without Cause. Executive shall remain entitled to any benefits which are then due to him under the Company Benefit Plans.

(b) Termination for Cause. The Company shall have the right to terminate Executive's employment at any time for Cause by giving Executive written notice of the effective date of termination (which effective date may, except as otherwise provided below, be the date of such notice). For purposes of this Agreement, "Cause" shall mean:

(i) fraud, misappropriation, embezzlement or other proven, felonious act of willful and material misconduct against the Company or any of its Affiliates;

(ii) willful and substantial failure to render services (except by reason of Disability (as such term is hereinafter defined) or incapacity) or comply with the agreements and covenants set forth herein in accordance with the terms of this Agreement, provided that (A) a demand for performance of services had been delivered to Executive by the Chief Executive Officer of the Company at least thirty (30) days prior to termination identifying the manner in which such Chief Executive Officer believes that Executive has failed to perform or comply and (B) Executive has thereafter failed to remedy such failure to perform or comply; or

(iii) conviction of or plea of guilty or nolo contendere to a felony.

If the Company terminates Executive's employment for any of the reasons set forth in this Section 4(b), the Company shall have no further obligations hereunder from and after the effective date of termination and shall have all other rights and remedies available under this or

any other agreement and at law or in equity, except that Executive shall remain entitled to any benefits which are then due to him under the Company Benefit Plans, and under previously vested stock options and previously vested "Equity Incentive Plan" shares. If Executive's employment is terminated for Cause and Executive does not consent to such termination, such Executive shall perform no further duties hereunder, but such termination shall not be considered immediately effective and Executive's rights under this Agreement during the Employment Period shall continue (including, without limitation, the provisions of Section 3 hereof) until the existence of such Cause has been determined by an independent arbitrator appointed by the American Arbitration Association and either party's rights to petition a court of law for a decision in the matter have been exhausted. In connection with the appointment of an arbitrator, both parties agree to submit the question to final and binding arbitration in the County of Los Angeles, California by an appointee of the American Arbitration Association and to cooperate with the arbitrator. If the arbitrator determines that Executive's termination was for Cause, then Executive's termination shall be considered effective as of the date set forth in the notice of termination, and Executive shall repay to the Company all compensation received pursuant to Section 3 hereof during the period commencing upon Executive's termination and ending upon the arbitrator's final determination. If the arbitrator determines that Executive's termination was not for Cause, then such termination shall be considered without Cause, shall be effective on the date of the arbitrator makes its determination and Section 4(a) shall apply.

(c) Termination on Account of Disability. If the Employment Period is terminated by the Company because of Executive's Disability (as such term is hereinafter defined), in addition to any benefits paid or payable to Executive under any long-term disability insurance policy maintained for the benefit of Executive, Executive shall be entitled to continue to receive his Base Salary for the period beginning on the date of such termination and ending on the 2nd anniversary of the Effective Date. The payments of Executive's Base Salary by the Company under this Section 4(c) will be made periodically in the same amounts and at the same intervals as if the Employment Period had not ended and Executive's Base Salary otherwise continued to be paid. For purposes of this Agreement, "Disability" shall mean Executive's inability to perform his duties under this Agreement for one hundred eighty (180) consecutive days during any twelve (12) month period due to illness, accident or other incapacity (as determined in good faith by a physician mutually acceptable to the Company and Executive). All unvested stock options and unvested "Equity Incentive Plan" shares previously granted to Executive shall vest in full upon Executive's Disability. Executive shall remain entitled to any benefits which are then due to him under the Company Benefit Plans.

(d) Termination on Account of Death. In the event of Executive's death during the Employment Period, in addition to any benefits paid or payable to Executive under any life insurance policy maintained by Executive, the Company shall pay to such person or persons, as Executive may specifically designate (successively or contingently) to receive payments under this Agreement following Executive's death (the "Designated Beneficiary"), Executive's Base Salary for the period beginning on the date of such termination and ending on the 2nd anniversary of the Effective Date. The payments of Executive's Base Salary by the Company under this Section 4(d) will be made periodically in the same amounts and at the same intervals as if the Employment Period had not ended and Executive's Base Salary otherwise continued to be paid. All unvested stock options and unvested "Equity Incentive Plan" shares previously granted to Executive shall vest in full upon Executive's death.

(e) Voluntary Termination by Executive. In the event that Executive's service with the Company is voluntarily terminated by Executive, the Company shall have no further obligations hereunder from and after the effective date of such termination and shall have all other rights and remedies available under this or any other agreement and at law or in equity. Executive shall remain entitled to any benefits accrued by him prior to the date of termination under the Company Benefit Plans and under any previously vested stock option and preciously vested "Equity Incentive Plan" shares.

5. Confidential Information.

(a) Executive agrees that any and all confidential knowledge or information, including but not limited to customer lists, books, records, data, formulae, specifications, inventions, processes and methods, developments, and improvements, which has or have been or may be obtained or learned by Executive in the course of his employment with the Company, will be held confidential by Executive and that Executive will not disclose the same to any person outside of the Company either during his employment with the Company or after his employment with the Company has terminated.

(b) Executive agrees that upon termination of his employment with the Company, he will immediately surrender and turn over to the Company all customer lists, books, records, forms, specifications, formulae, data, and all papers and writings relating to the business of the Company and other property belonging to the Company, it being understood and agreed that the same are the sole property of the Company and the Executive will not make or retain any copies thereof.

(c) Executive agrees that all inventions, developments or improvements which he makes, conceives, invents, discovers or otherwise acquires during his employment with the Company in the scope of his responsibilities or otherwise shall become the sole property of the Company.

6. Non-Competition; Non-Solicitation. Executive acknowledges that, in the course of his employment with the Company, he has become familiar, or will become familiar, with the Company's trade secrets and with other confidential information concerning the Company and that his services have been and will be of special, unique and extraordinary value to the Company. Therefore, Executive agrees as follows:

(a) During the period commencing on the Effective Date and ending on the second anniversary of the Effective Date (the "Non-Compete Period"), Executive will not directly or indirectly:

(i) engage in any business that competes with any business line of the Company or any of its Affiliates for which the gross revenue of the competing business was in excess of \$500 million during 2004, wherever such competing business may be performed (a "Competitive Business");

(ii) enter the employ of, or render services to, any person or entity (or any division of any person or entity) who or which engages in a Competitive Business;

(iii) acquire a financial interest in, or otherwise become actively involved with, any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant; or

(iv) interfere with, or attempt to interfere with, business relationships (whether formed before, on or after the date of this Agreement) between the Company or any of its Affiliates and customers, clients, suppliers, partners, members or investors of the Company or its Affiliates.

(b) During the Non-Compete Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit or encourage any employee of the Company or its Affiliates to leave the employment of the Company or its Affiliates;

(ii) solicit or encourage to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its affiliates.

(c) Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly solicit or assist in soliciting in competition with the Company, the business of any client or prospective client:

(i) with whom Executive has had personal contact or dealings on behalf of the Company;

(ii) with whom employees reporting to Executive have had personal contact or dealings on behalf of the Company;

or

(iii) for whom Executive has had direct or indirect responsibility.

(d) Notwithstanding anything to the contrary in this Agreement, Executive may:

(i) directly or indirectly own, solely as an investment, securities of a Competitive Business which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (a) is not a controlling person of, or a member of a group which controls, such person, and (b) does not, directly or indirectly, own 5% or more of any class of securities of such person;

(ii) alone or with one or more partners, invest directly (or indirectly through an intervening entity) in real estate; and

(iii) provide services with respect to the real estate or entity referred to in subsection (ii) so long as no fees, other than the reimbursement of costs, are charged, directly or indirectly, by Executive or such partners or entity for such services.

(e) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 6 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

7. Injunctive Relief. Because Executive's services are unique and because Executive has access to confidential information, the parties hereto agree that money damages would be an inadequate remedy for any breach of this Agreement. Therefore, in the event of a breach or threatened breach of Section 5 or 6 of this Agreement, the Company or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security).

8. Key Man Life and Disability Insurance. The Company may, for its own benefit, maintain "key man" life and disability insurance policies covering Executive. Executive shall cooperate with the Company and provide such information or other assistance as the Company may reasonably request in connection with the Company obtaining and maintaining such policies.

9. Representations.

(a) Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any agreement, contract or instrument to which Executive is a party or any judgment, order or decree to which Executive is subject, and (ii) Executive is not a party to or bound by any employment agreement, consulting agreement, non-compete agreement, confidentiality agreement or similar agreement with any other person or entity, and (iii) Executive has been provided with the opportunity to have this Agreement reviewed by Executive's legal counsel prior to its execution.

(b) The Company hereby represents and warrants to Executive that (i) this Agreement has been duly authorized by all necessary corporate action on the part of the Company; and (ii) the execution, delivery and performance of this Agreement by the Company does not and will not conflict with, breach, violate or cause a default under any agreement, contract or instrument to which the Company is a party or any judgment, order or decree to which the Company is subject.

10. Release.

(a) Executive, for Executive, Executive's successors, administrators, heirs and assigns, hereby fully and generally releases, waives and forever discharges the Company and its stockholders, directors, officers, employees, agents and attorneys, whether past, present or future (the "Released Parties"), from any and all actions, suits, debts, demands, damages, claims, judgments, liabilities, benefits or other remedial relief of any nature, including, costs and attorneys' fees, based on acts or occurrences prior to execution of this Agreement, whether known or unknown, including, without limitation, all claims arising out of Executive's employment prior to and on the date of this Agreement with the Company, as the case may be, their respective subsidiaries and affiliates, their predecessors, successors, assigns, such as (by way of example only) any claim for compensation or other benefits apart from the benefits stated herein and which are provided to Executive under the Company Benefit Plans; material breach of contract; impairment of economic opportunity; any claim under common-law or equity; any tort; claims for reimbursements; claims for commissions; implied or express employment contracts and/or estoppel; or claims for employment discrimination under the Age Discrimination in Employment Act, as amended, Title VII of the Civil Rights Act of 1964, as amended, the Rehabilitation Act of 1973, as amended, the Americans with Disabilities Act of 1990, as amended, the Civil Rights Act of 1866 and 1991, as amended, the Employee Retirement Income Security Act of 1974, as amended, or any other state, federal or local law, statute, or regulation. Executive acknowledges and agrees that this release is an essential and material term of this Agreement and that, without such release, no agreement would have been reached by the parties and no benefits under this Agreement would have been paid. Executive understands and acknowledges the significance and consequences of this Agreement.

(b) Executive represents that Executive has not engaged in any breach of fiduciary duty or criminal activity towards the Company. In reliance upon and conditioned upon the representations by Executive contained in this Agreement, the Company hereby releases Executive from any and all claims, suits, demands, actions or causes of action of any kind or nature whatsoever, whether the underlying facts are known or unknown, which the Company has or now claims, or might have or claim, pertaining to or arising out of Executive's employment by the Company prior to and on the date of this Agreement and agrees not to sue Executive concerning such claims. This release shall run to and be for the benefit of Executive and her heirs and assigns. This release shall run to and be binding upon the Company, and its successors, assigns and transferees.

(c) Executive and the Company hereby expressly waive any and all rights or benefits conferred by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE and expressly consent that the release provided in this Agreement shall be given full force and effect according to each and all of its express terms and conditions, including those relating to unknown claims, demands and causes of actions, if any, as well as those relating to any other claims, demands and causes of actions hereinabove specified. SECTION 1542 PROVIDES:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR"

Executive and the Company each acknowledge that they may hereafter discover claims or facts in addition to or different from those which they now know or believe to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected this Agreement. Nevertheless, Executive and the Company each hereby waive any right, claim or cause of action that might arise as a result of such different or additional claims or facts. Executive and the Company each acknowledge that they understand the significance and consequence of such release and such specific waiver of SECTION 1542.

11. Miscellaneous. This Agreement shall also be subject to the following miscellaneous considerations:

(a) The Company shall, to the maximum extent permitted by law, indemnify Executive against expenses (including, without limitation, reasonable attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising by reason of the fact that Executive is or was an employee, officer, independent contractor or agent of the Company or any of its Affiliates. The Company shall advance to Executive expenses incurred in defending any such proceedings to the maximum extent permitted by law. The Company's obligations under this provision shall not cease upon termination of this Agreement.

(b) In any action at law or in equity to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such action, as determined by the Court in a final judgment or decree, shall pay the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover judgment in any such action or proceeding, such costs, expenses, and attorneys' fees shall be included as part of such judgment. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party or parties for costs, expenses and attorneys' fees that exceeds the costs, expenses and attorneys' fees of the unsuccessful party or parties in connection with the action or proceeding.

(c) Either party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

(d) It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

(e) This Agreement contains a complete statement of all the arrangements between the parties with respect to Executive's employment by the Company, this Agreement supersedes all prior and existing negotiations and agreements between them concerning Executive's employment, and this Agreement can only be changed or modified pursuant to a written instrument executed by each of the parties hereto; provided, however, Executive shall remain entitled to any benefits which are provided to him under the Company Benefit Plans.

(f) All compensation payable hereunder shall be subject to such withholding taxes as may be required by law.

(g) This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. The Company will require any successor, whether direct or indirect, by purchase, merger, consolidation or otherwise, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Except as expressly provided herein, Executive may not sell, transfer, assign, or pledge any of his rights or interests pursuant to this Agreement.

(h) This Agreement shall be governed by and construed in accordance with the laws of the State of California, except to the extent governed by federal law.

(i) Any notice or other communication required or permitted to be given hereunder shall be deemed properly given if personally delivered or deposited in the United States mail, registered or certified and postage prepaid, addressed to the Company at 100 North Sepulveda Blvd., El Segundo, CA 90245-4380, Attention: President, or to Executive at 846 Emerald Bay, Laguna Beach, California, 92651, or at such other addresses as may from time to time be designated in writing by the respective parties.

(j) This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same agreement, binding on all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have read, understood, and voluntarily executed this Agreement as of the day and year first above written.

CB RICHARD ELLIS GROUP, INC.
CB RICHARD ELLIS, INC.

By: _____

Brett White
President

RAYMOND E. WIRTA

CB RICHARD ELLIS GROUP, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS
(Dollars in thousands)

	CB Richard Ellis Group, Inc.			Predecessor Company		
	Year Ended December 31,		2002	Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Year Ended December 31,
	2004	2003		2001	2001	2000
Income (loss) before provision for income taxes	\$108,254	\$ (40,980)	\$ 48,833	\$35,442	\$ (32,910)	\$ 68,139
Less: Equity income from unconsolidated subsidiaries	20,977	14,929	8,968	1,661	2,854	7,112
Add: Distributed earnings of unconsolidated subsidiaries	11,502	11,140	10,417	2,408	2,844	8,389
Fixed charges	<u>123,528</u>	<u>111,144</u>	<u>83,019</u>	<u>38,618</u>	<u>31,063</u>	<u>59,985</u>
Total earnings (loss) before fixed charges	<u>\$222,307</u>	<u>\$ 66,375</u>	<u>\$133,301</u>	<u>\$74,807</u>	<u>\$ (1,857)</u>	<u>\$129,401</u>
Fixed charges:						
Portion of rent expense representative of the interest factor (1)	\$ 37,035	\$ 26,409	\$ 22,518	\$ 8,901	\$ 10,760	\$ 18,285
Interest expense	65,418	71,256	60,501	29,717	20,303	41,700
Loss on extinguishment of debt	<u>21,075</u>	<u>13,479</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total fixed charges	<u>\$123,528</u>	<u>\$111,144</u>	<u>\$ 83,019</u>	<u>\$38,618</u>	<u>\$ 31,063</u>	<u>\$ 59,985</u>
Ratio of earnings to fixed charges	<u>1.80</u>	<u>n/a(2)</u>	<u>1.61</u>	<u>1.94</u>	<u>n/a(3)</u>	<u>2.16</u>

- (1) Represents one-third of operating lease costs, which approximates the portion that relates to the interest portion.
- (2) The ratio of earnings to fixed charges was negative for the year ended December 31, 2003. Additional earnings of \$44.8 million would be needed to have a one-to-one ratio of earnings to fixed charges.
- (3) The ratio of earnings to fixed charges was negative for the period from January 1, 2001 to July 20, 2001. Additional earnings of \$32.9 million would be needed to have a one-to-one ratio of earnings to fixed charges.

SUBSIDIARIES OF CB RICHARD ELLIS GROUP, INC.

At December 31, 2004

<u>NAME</u>	<u>State (or Country) of Incorporation</u>
CB Richard Ellis Commercial Limited	United Kingdom
CB Richard Ellis, Inc.	Delaware
CB Richard Ellis Real Estate Services, Inc.	Delaware
CB Richard Ellis Services, Inc.	Delaware
CBRE Stewardship Company	United Kingdom
Insignia Financial Group, Inc.	Delaware
L.J. Melody & Company	Texas
L.J. Melody of Texas, L.P.	Texas
CB Intermediate Limited	United Kingdom
Relam Amsterdam Holdings B.V.	The Netherlands
CB Hillier Parker Limited	United Kingdom
Insignia Richard Ellis Europe Limited	United Kingdom
Insignia BV	The Netherlands

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-116398 on Form S-8 and in Registration Statement No. 333-119362 on Form S-8 of our reports dated March 15, 2005, relating to the financial statements and financial statement schedule of CB Richard Ellis Group, Inc. and management's report on internal control over financial reporting, appearing in this Annual Report on Form 10-K of CB Richard Ellis Group, Inc. for the year ended December 31, 2004.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 15, 2005

CERTIFICATIONS

I, Ray Wirta, certify that:

- 1) I have reviewed this annual report on Form 10-K of CB Richard Ellis Group Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ RAY WIRTA

Ray Wirta
Chief Executive Officer

CERTIFICATIONS

I, Kenneth J. Kay, certify that:

- 1) I have reviewed this annual report on Form 10-K of CB Richard Ellis Group, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ KENNETH J. KAY

Kenneth J. Kay
Chief Financial Officer

WRITTEN STATEMENT
PURSUANT TO
18 U.S.C. SECTION 1350

The undersigned, Ray Wirta, Chief Executive Officer, and Kenneth J. Kay, Chief Financial Officer of CB Richard Ellis Group, Inc. (the "Company"), hereby certify as of the date hereof, solely for the purposes of 18 U.S.C. §1350, that:

(i) the Annual Report on Form 10-K for the period ending December 31, 2004, of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Dated: March 15, 2005

/s/ RAY WIRTA

Ray Wirta
Chief Executive Officer

/s/ KENNETH J. KAY

Kenneth J. Kay
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the report or as a separate disclosure document.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Richard C. Blum⁽³⁾⁽⁴⁾
Chairman of the Board of Directors
CB Richard Ellis Group, Inc.
Chairman and President
Blum Capital Partners, L.P.

Jeffrey A. Cozad⁽²⁾
Partner
Blum Capital Partners, L.P.

Patrice Marie Daniels⁽¹⁾
Founding Partner
Onyx Capital Ventures L.P.

Bradford M. Freeman⁽²⁾
Founding Partner
Freeman Spogli & Co., Inc.

Michael Kantor⁽³⁾
Partner
Mayer, Brown, Rowe & Maw LLP

Frederik V. Malek⁽¹⁾⁽²⁾⁽³⁾
Chairman
Thayer Capital Partners

Jeffrey S. Pion
Executive Vice President
CB Richard Ellis Group, Inc.

Brett White⁽⁴⁾
President
CB Richard Ellis Group, Inc.

Gary L. Wilson⁽¹⁾
Chairman
Northwest Airlines Corporation

Ray Wirta⁽⁴⁾
Chief Executive Officer
CB Richard Ellis Group, Inc.

⁽¹⁾Audit Committee

⁽²⁾Compensation Committee

⁽³⁾Corporate Governance and Nominating Committee

⁽⁴⁾Executive Committee

EXECUTIVE OFFICERS

Ray Wirta
Chief Executive Officer

Brett White
President

Kenneth J. Kay
Senior Executive Vice President
and Chief Financial Officer

Calvin W. Frese, Jr.
President, The Americas

Alan C. Froggatt
President, EMEA

Robert Blain
President, Asia Pacific

HEADQUARTERS

CB Richard Ellis Group, Inc.
865 South Figueroa Street, Suite 3400
Los Angeles, CA 90017
213-613-3226

INDEPENDENT AUDITORS

Deloitte & Touche LLP
350 South Grand Avenue
Los Angeles, CA 90071-3462

REGISTRAR AND STOCK TRANSFER AGENT

If you are a registered shareholder and have a question about your account, or would like to report a change in your name or address, please contact:

Bank of New York
101 Barclay Street, 12th Floor West
New York, NY 10286
800-524-4458
Fax: 610-382-9581
Corporate Website: www.stockbny.com

STOCK LISTING

CB Richard Ellis Group, Inc. Class A Common Stock is listed on the New York Stock Exchange under the ticker symbol "CBG"

COMMON STOCK PRICE

The high and low sales price per share of Common Stock are set forth below for the periods indicated.

	High	Low
1Q	N/A	N/A
2Q	\$ 19.10	\$ 18.20
3Q	\$ 23.64	\$ 18.78
4Q	\$ 33.94	\$ 23.51

The Company became public on June 10, 2004.

SHAREHOLDER INQUIRIES

Shareholder inquiries, including requests for annual reports, may be made in writing to:

Investor Relations Department
200 Park Avenue, 16th Floor
New York, NY 10166
By e-mail at investorrelations@cbre.com

CB Richard Ellis Group's Website
www.cbre.com

CB Richard Ellis Group, Inc.

Corporate Headquarters
865 South Figueroa Street
Suite 3400
Los Angeles, CA 90017
www.cbre.com

CBRE
CB RICHARD ELLIS