ASTRO MED INC /NEW/
Form 4/A
January 21, 2016

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Pizzuti Eric E
(Last) (First) (Middle)
72 FOOTE STREET
(Street)
BARRINGTON, RI 02806
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ASTRO MED INC /NEW/ [ALOT]

3. Date of Earliest Transaction (Month/Day/Year)
05/20/2015

4. If Amendment, Date Original Filed(Month/Day/Year)
05/22/2015

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Pr Deriv Secu

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Restricted Stock Units	(1)	05/20/2015		A		4,788 (2)		(3)	(3)	Common Stock	4,788

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Pizzuti Eric E 72 FOOTE STREET BARRINGTON, RI 02806			Vice President	

Signatures

/s/ Margaret Boericke, by power of attorney	01/21/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each restricted stock unit represents a contingent right to receive one share of ALOT common stock.

(2) This amendment is being filed solely to reflect the reporting person's acquisition of 4,788 restricted stock units as derivative securities in Table II, rather than as non-derivative securities in Table I, as was timely reported on the reporting person's original Form 4. The original Form 4 was inconsistent with ALOT's practice for other restricted stock unit awards.

(3) The restricted stock units vest in four equal annual installments beginning May 20, 2016.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ons 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, 2005, 2004 and 2003, 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 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

On July 23, 2003, pursuant to an amended and restated agreement and plan of merger, dated as of May 28, 2003, by and among us, CB Richard Ellis Services, Apple Acquisition Corp., a Delaware corporation and wholly owned subsidiary of CB Richard Ellis Services, and Insignia, Apple Acquisition was merged with and into Insignia. 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 us, CB Richard Ellis Services, Apple Acquisition, Insignia 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

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

Table of Contents

Results of Operations

The following table sets forth items derived from the consolidated statements of operations for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,					
	2005		2004		2003	
	(Dollars in thousands)					
Revenue	$ 2,910,641	100.0%	$ 2,365,096	100.0%	$ 1,630,074	100.0%
Costs and expenses:						
Cost of services	1,470,087	50.5	1,203,765	50.9	796,428	48.8
Operating, administrative and other	1,022,632	35.1	909,892	38.5	678,377	41.6
Depreciation and amortization	45,516	1.6	54,857	2.3	92,622	5.7
Merger-related charges			25,574	1.1	36,817	2.3
Operating income	372,406	12.8	171,008	7.2	25,830	1.6
Equity income from unconsolidated subsidiaries	38,425	1.3	20,977	0.9	14,930	0.9
Minority interest expense	2,163	0.1	1,502	0.1	565	
Interest income	9,267	0.3	6,926	0.3	4,623	0.3
Interest expense	54,327	1.9	68,080	2.9	72,319	4.5
Loss on extinguishment of debt	7,386	0.2	21,075	0.9	13,479	0.8
Income (loss) before provision (benefit) for income taxes	356,222	12.2	108,254	4.5	(40,980)	(2.5)
Provision (benefit) for income taxes	138,881	4.8	43,529	1.8	(6,276)	(0.4)
Net income (loss)	$ 217,341	7.4%	$ 64,725	2.7%	$ (34,704)	(2.1)%
EBITDA	$ 454,184	15.6%	$ 245,340	10.4%	$ 132,817	8.1%

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.

36

Table of Contents

EBITDA is calculated as follows:

	Year Ended December 31,		
	2005	2004	2003
	(Dollars in thousands)		
Net income (loss)	$ 217,341	$ 64,725	$ (34,704)
Add:			
Depreciation and amortization	45,516	54,857	92,622
Interest expense	54,327	68,080	72,319
Loss on extinguishment of debt	7,386	21,075	13,479
Provision (benefit) for income taxes	138,881	43,529	(6,276)
Less:			
Interest income	9,267	6,926	4,623
EBITDA	$ 454,184	$ 245,340	$ 132,817

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

We reported consolidated net income of $217.3 million for the year ended December 31, 2005 on revenue of $2.9 billion as compared to consolidated net income of $64.7 million on revenue of $2.4 billion for the year ended December 31, 2004.

Our revenue on a consolidated basis increased by $545.5 million, or 23.1%, as compared to the year ended December 31, 2004. The revenue growth was primarily driven by higher worldwide transaction revenue as well as increased appraisal and management fees. Additionally, the continued anticipation of interest rate hikes in the United States during the current year drove an increase in loan origination volume, which resulted in higher loan origination fees. Investment management fees also increased primarily due to improved performance in the United States. Foreign currency translation had a $2.2 million positive impact on total revenue during the year ended December 31, 2005.

Our cost of services on a consolidated basis increased by $266.3 million, or 22.1%, during the year ended December 31, 2005 as compared to the year ended December 31, 2004. As previously mentioned, our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Foreign currency translation had a $1.7 million negative impact on cost of services during the year ended December 31, 2005. Cost of services as a percentage of revenue was relatively consistent between periods at 50.5% for the year ended December 31, 2005 versus 50.9% for the year ended December 31, 2004.

Our operating, administrative and other expenses on a consolidated basis were $1,022.6 million, an increase of $112.7 million, or 12.4%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses, as well as increased marketing costs, all of which resulted from our improved operating performance. The year-over-year overall increase in operating expenses was partially muted by the absence of $15.0 million of one-time compensation expense related to our initial public offering, $5.1 million in write-downs of investments in our Americas business segment and $3.9 million of Insignia-related costs, all of which significantly impacted the results for the prior year. Finally, foreign currency translation had a $5.0 million negative impact on total operating expenses during the year ended December 31, 2005. Operating expenses as a percentage of revenue decreased from 38.5% for the year ended December 31, 2004 to 35.1% for the year ended December 31, 2005, reflecting the operating leverage inherent in our business structure.

Our depreciation and amortization expense on a consolidated basis decreased by $9.3 million, or 17.0%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The decrease was largely

Table of Contents

due to lower amortization expense related to intangibles acquired in the Insignia Acquisition, particularly relative 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.

Our merger-related charges on a consolidated basis were $25.6 million for the year ended December 31, 2004. These charges primarily consisted of lease termination costs associated with vacated spaces, consulting costs and severance costs, all of which were attributable to the Insignia Acquisition. We incurred our final merger-related charges associated with the Insignia Acquisition during the quarter ended September 30, 2004.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by $17.4 million, or 83.2%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004, primarily due to improved performance in our Global Investment Management segment, resulting from gains realized from the disposition of assets maintained in our investment portfolios as well as higher equity income recognized from the ownership of affiliated companies which have also benefited from improved performance. These increases were partially offset by a reduction in earnings in Asian investments in our Global Investment Management segment.

Our consolidated interest income was $9.3 million for the year ended December 31, 2005, an increase of $2.3 million, or 33.8%, as compared to the year ended December 31, 2004. This increase was primarily driven by higher average cash balances maintained in the current year as a result of our improved results as well as rising interest rates.

Our consolidated interest expense was $54.3 million for the year ended December 31, 2005, a decrease of $13.8 million, or 20.2%, as compared to the year ended December 31, 2004. This decline was primarily driven by interest savings realized as a result of debt repayments during 2004 and 2005. Our management expects to continue to look for opportunities to reduce our debt in the future.

Our loss on extinguishment of debt on a consolidated basis was $7.4 million and $21.1 million for the year ended December 31, 2005 and 2004, respectively. The loss incurred for the year ended December 31, 2005 related to the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with repurchases of our 11 $^{1}/4$% senior subordinated notes in the open market. The loss incurred in the prior year related to write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the redemptions of $70.0 million in aggregate principal amount of our 9 $^{3}/4$% 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 as well as in connection with the $21.6 million repurchase of our 11 $^{1}/4$% senior subordinated notes in the open market during May and June 2004. We expect to incur additional charges of this type as we continue our deleveraging efforts in the future.

Our provision for income taxes on a consolidated basis was $138.9 million for the year ended December 31, 2005 as compared to $43.5 million for the year ended December 31, 2004. The increase in the provision for income taxes is mainly attributable to the significant increase in pre-tax income over 2004. The effective tax rate decreased only slightly to 39.0% for the year ended December 31, 2005 from 40.2% for the year ended December 31, 2004.

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. The strong revenue growth in 2004 was driven by significantly higher sales transaction revenue as well as increased lease transaction, management,

Table of Contents

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 2004, 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. As previously mentioned, our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the overall increase in revenue. The Insignia Acquisition 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 have been 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 amortized it on a straight-line basis, which reflected the pattern in which the economic benefits of the broker draw asset were consumed. During the year ended December 31, 2004, we recorded $4.7 million for the amortization of this broker draw asset, which included 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 were 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 2004 related to ongoing Sarbanes-Oxley compliance work and the write-down of investments of $5.1 million in our Americas business segment also contributed to the variance. During 2004, we also incurred one-time compensation expense of $15.0 million related to bonus payments that were triggered by our initial public offering and were payable to several of our non-executive real estate advisory services employees as a result of provisions in their employment agreements. Additionally, in 2003 total operating expenses were reduced by substantial net foreign currency transaction gains resulting from a weaker U.S. dollar, while in 2004 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 2004 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.

Table of Contents

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. 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 years 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 $6.0 million, or 40.5%, 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 income was $6.9 million for the year ended December 31, 2004, an increase of $2.3 million, or 49.8%, as compared to the year ended December 31, 2003. This increase was primarily driven by higher average cash balances maintained in 2004 largely due to the Insignia Acquisition.

Our consolidated interest expense was $68.1 million for the year ended December 31, 2004, a decrease of $4.2 million, or 5.9%, 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.

Our loss on the extinguishment of debt on a consolidated basis was $21.1 million and $13.5 million for the years ended December 31, 2004 and 2003, respectively. The loss incurred during 2004 was related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the redemptions of $70.0 million in aggregate principal amount of our 9 $^{3}/4$% senior notes and $38.3 million in aggregate principal amount of our 16.0% senior notes with the net proceeds received from our initial public offering. Additionally, we incurred a loss of $4.0 million in the second quarter of 2004 related to the write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the $21.6 million repurchase of our 11 $^{1}/4$% 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.

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.

Table of Contents

Segment Operations

The following table summarizes our revenue, costs and expenses and operating income (loss) by our Americas, EMEA, Asia Pacific, and Global Investment Management operating segments for the years ended December 31, 2005, 2004 and 2003.

	Year Ended December 31,					
	2005		2004		2003	
	(Dollars in thousands)					
Americas						
Revenue	$ 2,011,647	100.0%	$ 1,660,307	100.0%	$ 1,155,461	100.0%
Costs and expenses:						
Cost of services	1,117,019	55.5	924,856	55.7	609,629	52. 8
Operating, administrative and other	621,009	30.9	569,195	34.3	438,425	37.9
Depreciation and amortization	30,782	1.5	37,514	2.3	56,865	4.9
Merger-related charges			22,038	1.3	20,367	1.8
Operating income	$ 242,837	12.1%	$ 106,704	6.4%	$ 30,175	2.6%
EBITDA	$ 286,887	14.3%	$ 154,506	9.3%	$ 95,113	8.2%
EMEA						
Revenue	$ 594,081	100.0%	$ 459,741	100.0%	$ 298,725	100.0%
Costs and expenses:						
Cost of services	265,914	44.8	206,258	44.9	135,864	45.5
Operating, administrative and other	223,365	37.6	207,326	45.1	136,644	45.8
Depreciation and amortization	10,468	1.7	12,050	2.6	31,110	10.4
Merger-related charges			3,205	0.7	15,958	5.3
Operating income (loss)	$ 94,334	15.9%	$ 30,902	6.7%	$ (20,851)	(7.0)%
EBITDA	$ 104,493	17.6%	$ 42,433	9.2%	$ 10,053	3.4%
Asia Pacific						
Revenue	$ 177,603	100.0%	$ 151,034	100.0%	$ 107,501	100.0%
Costs and expenses:						
Cost of services	87,154	49.1	72,651	48.1	50,935	47.3
Operating, administrative and other	64,173	36.1	57,354	38.0	46,802	43.5
Depreciation and amortization	2,430	1.4	2,476	1.6	2,226	2.1
Merger-related charges					492	0.5
Operating income	$ 23,846	13.4%	$ 18,553	12.3%	$ 7,046	6.6%
EBITDA	$ 27,285	15.4%	$ 21,584	14.3%	$ 9,633	9.0%
Global Investment Management						
Revenue	$ 127,310	100.0%	$ 94,014	100.0%	$ 68,387	100.0%
Costs and expenses:						

Operating, administrative and other	114,085	89.6	76,017	80.8	56,506	82.7
Depreciation and amortization	1,836	1.4	2,817	3.0	2,421	3.5
Merger-related charges			331	0.4		
Operating income	$ 11,389	9.0%	$ 14,849	15.8%	$ 9,460	13.8%
EBITDA	$ 35,519	27.9%	$ 26,817	28.5%	$ 18,018	26.3%

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

41

Table of Contents

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, loss on extinguishment of debt or provision (benefit) for income taxes among our segments. Accordingly, EBITDA for our segments is calculated as follows:

	Year Ended December 31,		
	2005	2004	2003
	(Dollars in thousands)		
Americas			
Operating income	$ 242,837	$ 106,704	$ 30,175
Adjustments:			
Depreciation and amortization	30,782	37,514	56,865
Equity income from unconsolidated subsidiaries	14,096	10,709	8,467
Minority interest expense	(828)	(421)	(394)
EBITDA	$ 286,887	$ 154,506	$ 95,113
EMEA			
Operating income (loss)	$ 94,334	$ 30,902	$ (20,851)
Adjustments:			
Depreciation and amortization	10,468	12,050	31,110
Equity income from unconsolidated subsidiaries	282	83	14
Minority interest expense	(591)	(602)	(220)
EBITDA	$ 104,493	$ 42,433	$ 10,053
Asia Pacific			
Operating income	$ 23,846	$ 18,553	$ 7,046
Adjustments:			
Depreciation and amortization	2,430	2,476	2,226
Equity income from unconsolidated subsidiaries	1,187	936	132
Minority interest (expense) income	(178)	(381)	229
EBITDA	$ 27,285	$ 21,584	$ 9,633
Global Investment Management			
Operating income	$ 11,389	$ 14,849	$ 9,460

Adjustments:			
Depreciation and amortization	1,836	2,817	2,421
Equity income from unconsolidated subsidiaries	22,860	9,249	6,317
Minority interest expense	(566)	(98)	(180)
EBITDA	$ 35,519	$ 26,817	$ 18,018

42

Table of Contents

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Americas

Revenue increased by $351.3 million, or 21.2%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The overall increase was primarily driven by continued strong investment sales activity, improved leasing activity, higher appraisal and management fees and increased loan origination fees. Foreign currency translation had an $8.3 million positive impact on total revenue during the year ended December 31, 2005.

Cost of services increased by $192.2 million, or 20.8%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004, primarily due to higher commission expense and bonus accruals as a result of the overall increase in revenue. Foreign currency translation had a $3.5 million negative impact on cost of services during the year ended December 31, 2005. Cost of services as a percentage of revenue remained relatively consistent for the year ended December 31, 2005 in comparison to the year ended December 31, 2004. The increase in cost of services as a percentage of revenue due to producers reaching higher commission tranches as a result of higher revenue was offset by a decrease in cost of services as a percentage of revenue as a result of lower payroll related costs as well as lower broker draw amortization in the current year. During the year ended December 31, 2004, we recorded $4.7 million of broker draw amortization, which included a $1.4 million one-time adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003. The amortization of the broker draw asset acquired in the Insignia Acquisition reflected the pattern in which the associated economic benefits were consumed, the fair value of which was refined during the three months ended March 31, 2004. As of July 31, 2005, the net broker draw asset was fully amortized.

Operating, administrative and other expenses increased $51.8 million, or 9.1%, mainly driven by higher payroll-related costs, including bonuses, as well as increased marketing costs, which primarily resulted from supporting our growing revenues. The year-over-year overall increase in operating, administrative and other expenses was partially muted by the absence of $15.0 million of one-time compensation expense related to our initial public offering, $5.1 million in write-downs of investments and $3.6 million of Insignia-related costs, all of which significantly impacted the results for the prior year. Foreign currency translation had a $3.7 million negative impact on total operating expenses during the year ended December 31, 2005.

EMEA

Revenue increased by $134.3 million, or 29.2%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004, primarily driven by higher transaction revenue, particularly in the United Kingdom, France and Germany, as well as increased appraisal fees throughout the region. Foreign currency translation had a $10.9 million negative impact on total revenue during the year ended December 31, 2005.

Cost of services increased $59.7 million, or 28.9%, mainly as a result of higher producer compensation expense, including bonuses, as well as increased commission expense, all of which were primarily driven by higher revenue and increased headcount. Foreign currency translation had a $4.0 million positive impact on cost of services during the year ended December 31, 2005. Cost of services as a percentage of revenue was relatively consistent between periods at 44.8% for the year ended December 31, 2005 versus 44.9% for the year ended December 31, 2004.

Operating, administrative and other expenses increased by $16.0 million, or 7.7%, mainly due to higher payroll-related costs, including bonuses, as well as increased marketing costs in the region, which were consistent with the improved results. These increases were partially offset by a decline in occupancy costs in the United Kingdom, primarily resulting from lower charges for idle facilities in the current year. Foreign currency translation had a $0.5 million positive impact on total operating expenses during the year ended December 31, 2005.

Table of Contents

Asia Pacific

Revenue increased by $26.6 million, or 17.6%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The increase was primarily driven by higher business activity levels throughout the region generally, as well as revenue from expanding markets, such as China. Foreign currency translation had a $4.8 million positive impact on total revenue during the year ended December 31, 2005.

Cost of services increased by $14.5 million, or 20.0%, mainly due to higher commissions, which were consistent with higher transaction revenue. Producer compensation expense was also higher, primarily in Australia and China, as a result of headcount increases. Foreign currency translation had a $2.2 million negative impact on cost of services for the year ended December 31, 2005.

Operating, administrative and other expenses increased by $6.8 million, or 11.9%, primarily due to an increase in payroll-related costs, including bonuses, which was consistent with the improved results throughout the region. Foreign currency translation had a $1.8 million negative impact on total operating expenses during the year ended December 31, 2005.

Global Investment Management

Revenue increased by $33.3 million, or 35.4%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The increase was primarily driven by $28.0 million of carried interest revenue earned from funds liquidating in the United States.

Operating, administrative and other expenses increased by $38.1 million, or 50.1%, primarily due to higher incentive compensation accruals of $33.9 million for key executives related to participation interests in certain real estate investments under management. For the year ended December 31, 2005, we recorded a total of $35.9 million of incentive compensation expense related to carried interest revenue, part of which pertained to the $28.0 million of revenue recognized in 2005 with the remainder (approximately $19.3 million) relating to future periods revenue. Revenue associated with these expenses cannot be recognized until certain financial hurdles are met. We expect that income we will recognize from funds liquidating in 2006 and future years will more than offset the $19.3 million accrued incentive compensation previously recognized. Foreign currency translation did not have a significant impact on this operating segment during the current year.

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, for the year ended December 31, 2004, 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 2004. Foreign currency translation had a $5.6 million positive impact on total revenue for the year ended December 31, 2004.

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, has

44

been 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. 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. Foreign currency translation had a $2.9 million negative impact on cost of services during 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%, 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 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 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 2004 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 2003, particularly relative to the Australian and New Zealand dollars. Additionally, net foreign currency transaction gains were offset in 2004 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 $2.0 million negative impact on total operating expenses for the year ended December 31, 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 have been 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.

Table of Contents

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 2003. 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 2004 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.

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

46

Table of Contents

credit agreement described below. Included in the capital requirements that we expect to fund during 2006 is approximately $44.6 million of anticipated net capital expenditures, including $4.0 million associated with recent in-fill acquisitions. The capital expenditures for 2006 are primarily comprised of information technology costs, which are driven largely by computer replacements as well as costs associated with upgrading various servers and systems, and leasehold improvements.

During 2001 and 2003, we required substantial amounts of new equity and debt financing to fund our acquisitions of CB Richard Ellis Services and Insignia. Absent extraordinary transactions such as these, we historically have not needed sources of financing other than our internally generated cash flow and our revolving credit facility to fund our working capital, capital expenditure and investment requirements. As a result, our management anticipates that our cash flow from operations and revolving credit facility will be sufficient to meet our anticipated cash requirements for the foreseeable future, but at a minimum for the next twelve months.

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

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan under our amended and restated credit agreement in 2010, our 9 $^{3}/4$% senior notes in 2010 and our 11 $^{1}/4$% senior subordinated notes in 2011. In May and June 2004, we repurchased $21.6 million in aggregate principal amount of our 11 $^{1}/4$% 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 9 $^{3}/4$% senior notes. During the year ended December 31, 2005, we repurchased $42.7 million in aggregate principal amount of our 11 $^{1}/4$% senior subordinated notes in the open market. In the future, we will continue to look for opportunities to reduce our debt from time to time. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot make any assurances that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

The other primary component of our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, are our obligations related to our deferred compensation plans and our U.K. pension plans. Pursuant to our deferred compensation plans, a select group of our management and other highly-compensated employees have been permitted to defer receipt of some or all of their compensation until future distribution dates and have the deferred amount credited towards specified investment alternatives. Except for deferrals into stock fund units that provide for future issuances of our common stock, the deferrals under the deferred compensation plans represent future cash payment obligations for us. We currently have invested in insurance 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, 2005, based upon actuarial calculations of future benefit obligations under these plans, these plans were in the aggregate approximately $57.4 million underfunded.

Table of Contents

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 $359.7 million for the year ended December 31, 2005, an increase of $172.4 million compared to the year ended December 31, 2004. This increase was primarily due to improved operating performance experienced in 2005 in comparison to the year ended December 31, 2004. Also contributing to the increase over the prior year was the accelerated timing of payments to vendors in the prior year offset by an additional $20.0 million of funding of our deferred compensation plan.

Net cash provided by operating activities totaled $187.2 million for the year ended December 31, 2004, an increase of $99.7 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 of 2004 versus 2003 not meaningful.

Investing Activities

Net cash used in investing activities totaled $115.5 million for the year ended December 31, 2005, an increase of $87.2 million compared to the year ended December 31, 2004. The increase was primarily due to the use of cash for in-fill acquisitions in the current year, particularly our acquisitions of CB Richard Ellis Gunne in Ireland and Dalgleish & Company in the United Kingdom. The increase was also driven by the receipt of proceeds in the year ended December 31, 2004 from the sale of property held for sale related to a real estate investment in Japan, partially offset by a decline in capital expenditures.

Net cash used in investing activities totaled $28.4 million for the year ended December 31, 2004, a decrease of $280.0 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.

Financing Activities

Net cash used in financing activities totaled $47.3 million for the year ended December 31, 2005 compared to net cash used in financing activities of $67.4 million for the year ended December 31, 2004. The decrease in net cash used in financing activities was primarily driven by the repayment of borrowings related to a property held for sale in Japan in the prior year, partially offset by increased repayments of our 11 1/4% senior subordinated notes in the current year.

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 debt repayments made in 2003, including $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 2003.

Table of Contents

Summary of Contractual Obligations and Other Commitments

The following is a summary of our various contractual obligations and other commitments as of December 31, 2005:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
	(Dollars in thousands)				
Total debt (1)	$ 833,221	$ 284,065	$ 25,699	$ 360,384	$ 163,073
Operating leases (2)	722,012	110,706	188,677	155,687	266,942
Deferred compensation plan liability (3)	188,943	16,072	18,300	22,800	131,771
Pension liability (3) (4)	41,194				41,194
Total Contractual Obligations	$ 1,785,370	$ 410,843	$ 232,676	$ 538,871	$ 602,980

	Amount of Other Commitments Expiration				
Other Commitments	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
	(Dollars in thousands)				
Letters of credit (2)	$ 627	$ 627	$	$	$
Guarantees (2) (5)	2,325	2,325			
Co-investments (2)	31,155	18,796	12,359		
Other (6)	15,957	15,957			
Total Other Commitments	$ 50,064	$ 37,705	$ 12,359	$	$

(1) See Note 11 of our Notes to the Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following interest payments (in thousands): 2006 $47,877; 2007 to 2008 $93,434; 2009 2010 $72,188 and thereafter $8,428. The interest payments on the variable rate debt have been calculated at the interest rate in effect at December 31, 2005.

(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.

(6) Includes payments related to acquisitions.

Initial and Secondary Public Offerings

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock. In connection with the initial public offering, we issued and sold 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 initial public offering, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately $290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by underwriters and received net proceeds of approximately $4.1 million, after deducting underwriting discounts and commissions. Lastly, on December 13, 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders. We did not receive any of the proceeds from the sale of shares by the selling stockholders on June 15, 2004, July 14, 2004 and December 13, 2004.

Table of Contents

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

Indebtedness

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

Most of our long-term indebtedness was incurred in connection with our acquisition of CB Richard Ellis Services in July 2001 and the Insignia Acquisition in July 2003. The CB Richard Ellis Services acquisition, which was a going private transaction involving members of our senior management, affiliates of Blum Capital Partners and Freeman Spogli & Co. and some of our other existing stockholders, was undertaken so that we could take advantage of growth opportunities and focus on improvements in the CB Richard Ellis Services businesses. The Insignia Acquisition increased the scale of our real estate advisory services and outsourcing services businesses as well as significantly increased our presence in the New York, London and Paris metropolitan areas.

Since 2001, we have maintained a credit agreement with Credit Suisse, or CS, and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to $30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our initial public offering, we completed the 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 a first amendment to our new amended and restated credit agreement, which reduced the interest rate spread of the term loan and increased flexibility on certain restricted payments and investments. On May 10, 2005, we entered into a second amendment to our amended and restated credit agreement (the Credit Agreement), which relaxed the mandatory prepayment clause of the initial credit agreement by permitting us to keep cash otherwise required to be used to pay down principal, so long as our leverage ratio is below 2.5 to 1.0.

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 9 $^{3}/_{4}$% 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.

50

Table of Contents

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) CS 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 balances in the accompanying consolidated balance sheets was $265.3 million and $277.1 million as of December 31, 2005 and 2004, 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, 2005 and 2004, we had no revolving credit facility principal outstanding. As of December 31, 2005, letters of credit totaling $13.7 million were outstanding, which letters of credit primarily relate to our subsidiaries outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

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 domestic 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 9 3/4% senior notes, which are due May 15, 2010. CBRE Escrow, Inc. merged with and into CB Richard Ellis Services, and CB Richard Ellis Services assumed all obligations with respect to the 9 3/4% senior notes in connection with the Insignia Acquisition. The 9 3/4% senior notes are unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services current and future secured indebtedness. The 9 3/4% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9 3/4% per year and is payable semi-annually in arrears on May 15 and November 15. The 9 3/4% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9 3/4% senior notes at 109 3/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our initial public offering to redeem $70.0 million in aggregate principal amount, or 35.0%, of our 9 3/4% senior notes, which also required the payment of a $6.8 million premium and accrued and unpaid interest through the date of redemption. In the event of a change of control (as defined in the indenture governing our 9 3/4% senior notes), we are obligated to make an offer to purchase the 9 3/4% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9 3/4% senior notes included in the accompanying consolidated balance sheets was $130.0 million as of December 31, 2005 and 2004, respectively.

In June 2001, in order to partially finance our acquisition of CB Richard Ellis Services, Blum CB Corp. issued $229.0 million in aggregate principal amount of 11 1/4% senior subordinated notes due June 15, 2011 for approximately $225.6 million, net of discount. CB Richard Ellis Services assumed all obligations with respect to the 11 1/4% senior subordinated notes in connection with the merger of Blum CB Corp. with and into CB Richard Ellis Services on July 20, 2001. The 11 1/4% senior subordinated notes are unsecured senior subordinated obligations of CB Richard Ellis Services and rank equally in right of payment with any of CB Richard Ellis Services existing and future unsecured senior subordinated indebtedness, but are subordinated to any of CB Richard Ellis Services existing and future senior indebtedness. The 11 1/4% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries.

Table of Contents

The 11 1/4% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111 1/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11 1/4% senior subordinated notes), we are obligated to make an offer to purchase the 11 1/4% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June of 2004, we repurchased $21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid $3.1 million of premiums in connection with these open market purchases. During the year ended December 31, 2005, we repurchased an additional $42.7 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid an aggregate of $5.9 million of premiums in connection with these open market purchases. The amount of the 11 1/4% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $163.0 million and $205.0 million as of December 31, 2005 and 2004, respectively.

Also, to partially fund our acquisition of CB Richard Ellis Services in 2001, we issued $65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes were unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrued at a rate of 16.0% per year and was payable quarterly in arrears. 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 initial public offering to redeem the remaining $38.3 million in aggregate principal amount of our 16% senior notes, which also required the payment of a $2.5 million premium and accrued and unpaid interest through the date of redemption.

Our Credit Agreement and the indentures governing our 9 3/4% senior notes, and our 11 1/4% 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 9 3/4% senior notes and our 11 1/4% senior subordinated notes. On April 11, 2005, Moody s Investor Service upgraded its rating of our senior secured term loan and 9 3/4% senior notes from B1 to Ba3 as well as our 11 1/4% senior subordinated notes from B3 to B1, and raised its rating outlook to positive. On May 25, 2005, Standard & Poor s Ratings Service raised our credit rating from B+ to BB-. Neither the Moody s nor the Standard & Poor s ratings impact our ability to borrow under our Credit Agreement. However, these ratings may impact our ability to borrow under new agreements in the future and the interest rates of any such future borrowings.

Our wholly owned subsidiary, CBRE Melody, has credit agreements with Washington Mutual Bank, FA, or WaMu, and JP Morgan Chase Bank, N.A., or JP Morgan, for the purpose of funding mortgage loans that will be resold. The credit agreement with WaMu was previously with Residential Funding Corporation, or RFC. On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provided for a warehouse line of credit of up to $250.0 million, bore interest at one-month LIBOR plus 1.0% and expired on September 1, 2005. This agreement provided for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On December 13, 2004, we and RFC 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 was for the period from December 20, 2004 to and including January 20, 2005. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. During the latter half of 2005, we executed several amendments to the warehouse line of credit with WaMu, which extended the agreement, the last of which extended the agreement until February 1, 2006. On January 30, 2006, we executed a fifth amendment to the warehouse line of credit which further extended the agreement with WaMu until March 1, 2006. Lastly, on February 20, 2006, a sixth amendment to the warehouse line of credit with WaMu was executed, which further extended the agreement until March 31, 2006. We expect that prior to March 31, 2006, or within thirty days after the delivery of any termination notice by WaMu, CBRE Melody will be able to reach a satisfactory amendment to extend the term of the agreement with WaMu or to enter into an agreement with another third party to provide substitute financing arrangements for the purpose of funding mortgage loans. However, if CBRE Melody is not able to do so, the business and results of operations of our mortgage loan origination and servicing line of business may be adversely affected.

On November 15, 2005, CBRE Melody entered into a Secured Credit Agreement with JP Morgan to establish an additional warehouse line of credit. This agreement provides for a $250.0 million senior secured revolving line of credit, bears interest at the daily Chase London LIBOR rate plus 0.75% and expires on November 14, 2006.

During the years ended December 31, 2005 and 2004, respectively, we had a maximum of $256.0 million and $279.8 million of warehouse lines of credit principal outstanding. As of December 31, 2005 and 2004, we had $256.0 million and $138.2 million of warehouse lines of credit principal outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $256.0 million and $138.2 million of mortgage loans held for sale (warehouse receivables), which represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased as of December 31, 2005 and 2004, 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 redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement. On May 31, 2005, with the exception of one note holder, we entered into an amendment to eliminate a letter of credit requirement and adjust the interest rate to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement plus twelve basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.6 million and $12.1 million as of December 31, 2005 and 2004, respectively.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the United Kingdom. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of December 31, 2005 and 2004, $4.6 million and $8.5 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

During 2005, in conjunction with the acquisitions of properties held for sale in our European investment management business, we entered into debt agreements with ING Real Estate Finance N.V., or ING Real Estate, and The Royal Bank of Scotland, or RBS. The agreement with ING Real Estate related to a property held for sale

Table of Contents

in Germany and provided for the borrowing of 19.0 million euros of acquisition indebtedness and 5.1 million euros of construction/upgrade financing. The 19.0 million principal had a floating rate component with respect to 8.0 million euros and a fixed rate component with respect to 11.0 million euros. The floating rate was tied to the three-month Euribor rate plus 0.95%. The fixed rate was equal to the Euro Interest Rate Swap Rate plus 1.05% for up to three years. The 5.1 million euro construction financing principal accrued interest based upon the aforementioned indices in both fixed and floating rate components. During the quarter ended September 30, 2005, we completed the sale of the German property held for sale and utilized the proceeds from the sale to repay all of the related debt. The agreement with RBS related to two properties held for sale in France and provided for the borrowing of 24.1 million euros. Interest accrued at a rate based on the three-month Euribor rate plus 1.20% and was payable quarterly in arrears. During the fourth quarter of 2005, we sold the majority of our ownership interests in our investment in two French properties held for sale. As a result of the dilution of our ownership interests in this investment, the assets and the related debt amounts were deconsolidated and are no longer included in our consolidated balance sheet. The operating results related to these properties held for sale were not significant for the year ended December 31, 2005.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. As of December 31, 2005 and 2004, there were no amounts outstanding under this facility.

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 ended or on a future date at least three years after the deferral election date. The investment alternatives available to participants included 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, 2005, there were 1,311,724 outstanding stock fund units under the Old DCP, all of which were vested. Our stock fund unit deferrals included in additional paid-in capital totaled $7.6 million at December 31, 2005.

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

54

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 them.

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. We amended the New DCP, effective as of November 18, 2005, to conform with U.S. Department of Treasury and Internal Revenue Service regulations. The amendment allowed any participant who elected to defer compensation in 2005 to make a one-time irrevocable election to cancel that deferral election on or before November 30, 2005.

Included in our accompanying consolidated balance sheets is an accumulated non-stock liability of $188.9 million and $166.7 million at December 31, 2005 and 2004, respectively, and assets (in the form of insurance) set aside to cover the liability of $144.6 million and $102.6 million as of December 31, 2005 and 2004, respectively. The current portion of the accumulated non-stock liability is $16.1 million and $6.4 million at December 31, 2005 and 2004, respectively, and is included in compensation and employee benefits payable in the accompanying consolidated balance sheets.

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 $41.2 million and $27.9 million at December 31, 2005 and 2004, respectively. We expect to contribute a total of $7.0 million to fund our pension plan for the year ended December 31, 2006.

Other Obligations and Commitments

We had an outstanding letter of credit totaling $0.6 million as of December 31, 2005, excluding letters of credit related to our subsidiaries outstanding indebtedness and operating leases. CBRE Melody previously

55

executed an agreement with Federal National Mortgage Association, or Fannie Mae, to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its warehouse line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and CBRE 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 $62.7 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 $0.6 million. The other 1% is covered in the form of a guarantee to Fannie Mae. The letter of credit expires on December 10, 2006, however, we are obligated to renew this letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling $2.3 million as of December 31, 2005, which includes the obligation to Fannie Mae discussed above, as well as various guarantees of management contracts in our operations overseas. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007. The other guarantees will expire at the end of each of the respective management agreements.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of December 31, 2005, we had committed $31.2 million to fund future co-investments, of which $18.8 million is expected to be funded during 2006. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

Seasonality

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

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 Tax and Accounting 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. In December 2005, we elected to repatriate approximately $56.0 million under the provisions of the Act, which resulted in a $3.5 million charge to income tax expense for the year ended December 31, 2005.

In December 2004, the FASB issued SFAS No. 123 Revised, *Share Based Payment*, or SFAS No. 123R. 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. During 2005, the Securities and Exchange Commission deferred the effective date of this statement until the first annual period beginning after June 15, 2005, or in our case January 1, 2006. Effective January 1, 2006, we plan to adopt the modified-prospective

56

Table of Contents

method for the remaining unvested options that were granted subsequent to our Initial Public Offering in 2004 and plan to adopt the prospective method for the remaining unvested options that were granted prior to our Initial Public Offering in 2004. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29,* or SFAS No. 153. The guidance in Accounting Principles Board, or APB, Opinion No. 29*, Accounting for Nonmonetary Transactions,* is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 153 will have a material impact on our results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* or SFAS No. 154. SFAS No. 154 requires retrospective application to prior periods financial statements of voluntary changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material effect on our consolidated financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments,* or SFAS No. 155. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. It establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain embedded derivatives requiring bifurcation. It also clarifies that concentrations or credit risk in the form of subordination are not embedded derivatives and it eliminates the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The statement will be effective for all financial instruments acquired or issued during fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS No. 155 to have a material effect on our consolidated financial position or results of operations.

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, 2005, approximately 32.1% of our business was transacted in local currencies of foreign countries, the majority of which includes the Euro, the British pound sterling, the Canadian dollar, the Hong Kong dollar, the 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

57

Table of Contents

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 revenue 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. During the year ended December 31, 2005, foreign currency translation had a $2.2 million positive impact on our total revenue and a $6.7 million negative impact on our total costs of services and operating, administrative and other expenses.

We routinely monitor our exposure to currency exchange rate changes in connection with transactions and sometimes enter into foreign currency exchange forward and option contracts to limit our exposure to such transactions, as appropriate. In the normal course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange contracts to mitigate foreign currency exchange exposure resulting from inter-company loans, expected cash flow and earnings. On March 4, 2005, we entered into foreign currency exchange forward contracts with an aggregate notional amount of approximately $6.0 million, which expired on various dates through December 30, 2005. On April 19, 2005, we entered into an option agreement to purchase an aggregate notional amount of 25.0 million British pounds sterling, which expired on December 28, 2005. On April 22, 2005, we entered into additional foreign currency exchange forward contracts with an aggregate notional amount of approximately $17.0 million, which expired on various dates though December 31, 2005. On September 21, 2005, we entered into an additional foreign currency exchange forward contract with a notional amount of approximately $4.0 million, which expired on December 30, 2005. The net impact on our earnings resulting from gains and/or losses on our option agreement as well as our foreign currency exchange forward contracts was not significant for the year ended December 31, 2005. We apply Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended 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, 2005, 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, 2005 consisted of the following:

Year of Maturity	**Fixed Rate**	**One-Month LIBOR + 1.0%**	**Daily Chase-London LIBOR + 0.75%**	**Six-Month LIBOR + 2.0% (3)**	**Six-Month LIBOR + 2.0% + 12 basis points**	**Six-Month GBP LIBOR - 2.0%**	**Total**
			(Dollars in thousands)				
2006	$ 2,364	$ 66,245	$ 189,718	$ 11,800	$ 11,579	$ 2,359	$ 284,065
2007	1,497			11,800			13,297
2008	602			11,800			12,402
2009	516			11,800			12,316
2010	130,018(1)			218,050			348,068
Thereafter	163,073(2)						163,073
Total	$ 298,070	$ 66,245	$ 189,718	$ 265,250	$ 11,579	$ 2,359	$ 833,221
Weighted Average Interest Rate	10.5%	5.4%	5.1%	6.2%	6.3%	2.6%	7.4%

(1) Primarily includes our 9 3/4% senior notes.
(2) Primarily includes our 11 1/4% senior subordinated notes.
(3) Consists of amounts due under our senior secured credit facilities.

58

Table of Contents

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 57 basis points, which would comprise approximately 10% of the weighted average interest rates of our outstanding variable rate debt at December 31, 2005, the net impact would be a decrease of $3.1 million on pre-tax income and cash provided by operating activities for the year ended December 31, 2005.

Based on dealers quotes at December 31, 2005, the estimated fair values of our $9\,^{3}/4\%$ senior notes and our $11\,^{1}/4\%$ senior subordinated notes were $141.7 million and $177.8 million, respectively. Estimated fair values for the term loan under our senior secured credit facilities and our remaining long-term debt are not presented because we believe that they are not materially different from book value, primarily because the substantial majority of this debt is based on variable rates that approximate terms that we believe could be obtained at December 31, 2005.

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, when accounting for any such derivatives.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND FINANCIAL STATEMENT SCHEDULE

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.

Table of Contents

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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, 2005, 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 14, 2006 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 14, 2006

61

Table of Contents

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	December 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 449,289	$ 256,896
Restricted cash	5,179	9,213
Receivables, less allowance for doubtful accounts of $15,646 and $14,811 at December 31, 2005 and 2004, respectively	483,175	394,062
Warehouse receivables	255,963	138,233
Prepaid expenses	36,402	26,586
Deferred tax assets, net	46,612	23,122
Other current assets	16,327	15,583
Total Current Assets	1,292,947	863,695
Property and equipment, net	137,655	137,703
Goodwill	880,179	821,508
Other intangible assets, net of accumulated amortization of $30,586 and $23,224 at December 31, 2005 and 2004, respectively	109,540	113,653
Deferred compensation assets	144,597	102,578
Investments in and advances to unconsolidated subsidiaries	106,153	83,501
Deferred tax assets, net	86,217	78,471
Other assets, net	58,384	70,527
Total Assets	$ 2,815,672	$ 2,271,636
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 254,085	$ 185,877
Compensation and employee benefits payable	189,984	150,721
Accrued bonus and profit sharing	324,973	266,912
Income taxes payable	63,918	
Short-term borrowings:		
Warehouse line of credit	255,963	138,233
Other	16,189	21,736
Total short-term borrowings	272,152	159,969
Current maturities of long-term debt	11,913	11,954
Other current liabilities	20,778	29,547
Total Current Liabilities	1,137,803	804,980
Long-Term Debt:		
11 1/4% senior subordinated notes, net of unamortized discount of $1,648 and $2,337 at December 31, 2005 and 2004, respectively	163,021	205,032
Senior secured term loan	253,450	265,250
9 3/4% senior notes	130,000	130,000
Other long-term debt	2,685	602
Total Long-Term Debt	549,156	600,884
Deferred compensation liability	172,871	160,281

Pension liability	41,194	27,871
Other liabilities	114,139	111,747
Total Liabilities	2,015,163	1,705,763
Commitments and contingencies		
Minority interest	6,824	5,925
Stockholders Equity:		
Class A common stock; $0.01 par value; 325,000,000 shares authorized; 73,784,582 and 71,031,429 shares issued and outstanding at December 31, 2005 and 2004, respectively	738	710
Additional paid-in capital	550,128	513,801
Notes receivable from sale of stock	(101)	(433)
Accumulated earnings	283,515	66,174
Accumulated other comprehensive loss	(40,595)	(20,304)
Total Stockholders Equity	793,685	559,948
Total Liabilities and Stockholders Equity	$ 2,815,672	$ 2,271,636

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

62

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share data)

	Year Ended December 31,		
	2005	**2004**	**2003**
Revenue	$ 2,910,641	$ 2,365,096	$ 1,630,074
Costs and expenses:			
Cost of services	1,470,087	1,203,765	796,428
Operating, administrative and other	1,022,632	909,892	678,377
Depreciation and amortization	45,516	54,857	92,622
Merger-related charges		25,574	36,817
Operating income	372,406	171,008	25,830
Equity income from unconsolidated subsidiaries	38,425	20,977	14,930
Minority interest expense	2,163	1,502	565
Interest income	9,267	6,926	4,623
Interest expense	54,327	68,080	72,319
Loss on extinguishment of debt	7,386	21,075	13,479
Income (loss) before provision (benefit) for income taxes	356,222	108,254	(40,980)
Provision (benefit) for income taxes	138,881	43,529	(6,276)
Net income (loss)	$ 217,341	$ 64,725	$ (34,704)
Basic income (loss) per share	$ 2.94	$ 0.95	$ (0.68)
Weighted average shares outstanding for basic income (loss) per share	74,043,022	67,775,406	50,918,572
Diluted income (loss) per share	$ 2.84	$ 0.91	$ (0.68)
Weighted average shares outstanding for diluted income (loss) per share	76,618,352	71,345,073	50,918,572

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,		
	2005	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 217,341	$ 64,725	$ (34,704)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	45,516	54,857	92,622
Amortization and write-off of deferred financing costs	5,914	11,353	13,276
Amortization and write-off of long-term debt discount	689	3,334	2,493
Deferred compensation deferrals	28,625	24,057	13,715
Write-off of impaired investments		5,134	
Gain on sale of servicing rights, property held for sale and other assets	(4,158)	(7,974)	(5,321)
Equity income from unconsolidated subsidiaries	(38,425)	(20,977)	(14,930)
Distribution of earnings from unconsolidated subsidiaries	24,997	11,502	11,140
Minority interest expense	2,163	1,502	565
Provision for doubtful accounts	4,214	2,367	3,436
Deferred income taxes	(5,659)	15,803	(8,717)
Compensation expense for stock options	5,463	1,144	159
Tenant concessions received	4,273	13,697	13,338
Increase in receivables	(93,135)	(68,516)	(43,011)
Increase in deferred compensation assets	(42,020)	(26,189)	(12,747)
(Increase) decrease in prepaid expenses and other assets	(9,387)	14,389	(6,027)
Increase (decrease) in accounts payable and accrued expenses	66,344	(10,842)	14,448
Increase in compensation and employee benefits payable and accrued bonus and profit sharing	102,502	73,560	42,634
Increase (decrease) in net income taxes payable	86,696	18,208	(15,197)
(Decrease) increase in other liabilities	(41,226)	4,661	16,021
Other operating activities, net	(1,071)	1,412	4,353
Net cash provided by operating activities	359,656	187,207	87,546
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of servicing rights and other assets	3,649	6,703	3,949
Proceeds from sale of property held for sale	64,828	50,401	
Investment in property held for sale	(64,828)		
Capital expenditures	(37,751)	(52,953)	(40,299)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(75,694)	(25,142)	(263,683)
Contributions to investments in unconsolidated subsidiaries, net of capital distributions	(11,175)	(8,929)	(11,787)
Decrease in restricted cash	4,047	6,470	873
Other investing activities, net	1,415	(4,901)	2,547
Net cash used in investing activities	(115,509)	(28,351)	(308,400)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolver and swingline credit facility		186,750	152,850
Repayment of revolver and swingline credit facility		(186,750)	(152,850)
Proceeds from senior secured term loans			375,000
Repayment of senior secured term loans	(11,800)	(20,450)	(298,475)
Proceeds from debt related to property held for sale	53,543		
Repayment of debt related to property held for sale	(53,543)	(41,956)	
Repayment of notes payable			(43,000)

(Repayment of) proceeds from other loans, net	(2,533)	(16,681)	3,029
Proceeds from 9 3/4% senior notes			200,000
Repayment of 9 3/4% senior notes		(70,000)	
Repayment of 11 1/4% senior subordinated notes	(42,700)	(21,631)	
Repayment of 16% senior notes		(38,316)	(30,000)
Proceeds from issuance of common stock, net		135,000	120,980
Proceeds from exercise of stock options	11,450	9,643	
Payment of deferred financing fees	(318)	(4,683)	(22,707)
Other financing activities, net	(1,371)	1,708	(1,163)
Net cash (used in) provided by financing activities	(47,272)	(67,366)	303,664
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,875	91,490	82,810
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	256,896	163,881	79,701
Effect of currency exchange rate changes on cash	(4,482)	1,525	1,370
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 449,289	$ 256,896	$ 163,881
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 52,398	$ 78,754	$ 63,718
Income taxes, net of refunds	$ 56,817	$ 17,915	$ 17,783

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars in thousands)

	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, 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, net of issuance costs	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	$ 710		$ 513,801	$ (433)	$ 66,174	$ (6,223)	$ (14,081)	$ 559,948
Net income					217,341			217,341
Noncash issuance of Class A common stock			272					272
Net cancellation and distribution of deferred compensation stock fund units	11		(449)					(438)
Net collection on notes receivable from sale of stock				332				332
Minimum pension liability adjustment, net of tax						(14,516)		(14,516)

Stock options exercised (including tax benefit)	17		31,041					31,058
Compensation expense for stock options and non-vested stock awards			5,463					5,463
Foreign currency translation loss							(5,775)	(5,775)
Balance at December 31, 2005	$ 738		$ 550,128	$ (101)	$ 283,515	$ (20,739)	$ (19,856)	$ 793,685

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

65

Table of Contents

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Year Ended December 31,		
	2005	2004	2003
Net income (loss)	$ 217,341	$ 64,725	$ (34,704)
Other comprehensive (loss) income:			
Foreign currency translation loss	(5,775)	(5,410)	(6,712)
Minimum pension liability adjustment, net of tax	(14,516)	8,886	1,930
Total other comprehensive (loss) income	(20,291)	3,476	(4,782)
Comprehensive income (loss)	$ 197,050	$ 68,201	$ (39,486)

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

66

Table of Contents

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

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. 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. Lastly, on December 13, 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004, July 14, 2004, and December 13, 2004.

We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets globally under the CB Richard Ellis brand name. Our business is focused on several service competencies, including tenant representation, property/agency leasing, property sales, commercial mortgage origination/servicing, integrated capital markets (equity and debt) solutions, commercial property and corporate facility management, valuation, proprietary research and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

2. 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, or entities which are variable interest entities in which we are not the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51* (FIN No. 46R) 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.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results may differ from these estimates. Management believes that these estimates provide a reasonable basis for the fair presentation of our financial condition and results of operations.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Users of real estate services account for a substantial portion of trade receivables and collateral is generally not required. The risk associated with this concentration is limited due to the large number of users and their geographic dispersion.

We place substantially all of our interest-bearing investments with major financial institutions and limit the amount of credit exposure with any one financial institution.

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. We did not recognize an impairment loss related to property and equipment in either 2005, 2004 or 2003.

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 (SOP) 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.

68

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid by us over the fair value of the tangible and intangible assets and liabilities of acquired businesses, with the majority of the balance resulting from the 2001 Merger and 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. 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.

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* 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, 2005, 2004 and 2003, 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 $^{1}/4$% senior subordinated notes in the open market, and the $70.0 million and $38.3 million redemptions of our 9 $^{3}/4$% senior notes and 16% senior notes, respectively. During 2005, we wrote off $1.1 million of unamortized deferred financing costs associated with the $42.7 million repurchase of our 11 $^{1}/4$% senior subordinated notes. Total deferred financing costs, net of accumulated amortization, included in other assets in the accompanying consolidated balance sheets were $17.6 million and $23.2 million, as of December 31, 2005 and 2004, 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.

69

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 generally accrued for based upon the probability of such performance-based incentive fees being earned over the related vesting period.

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 SOP 93-7, *Reporting on Advertising Costs.* Business promotion and advertising costs of $43.3 million, $31.1 million and $23.5 million were included in operating, administrative and other expenses for the years ended December 31, 2005, 2004 and 2003, 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 $0.4 million loss, a $3.2 million gain and a $9.8 million gain for the years ended December 31, 2005, 2004 and 2003, respectively.

70

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

In the normal course of business, we sometimes utilize derivative financial instruments in the form of foreign currency exchange forward and option contracts to mitigate foreign currency exchange exposure resulting from inter-company loans, expected cash flow and earnings. We apply SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, when accounting for any such contracts. SFAS No. 133, 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, 2005 and 2004, we were not party to any such contracts.

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, 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). In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time (see Note 13). The income tax benefit associated with the minimum pension liability adjustments was $8.9 million, $2.7 million and $6.5 million as of December 31, 2005, 2004 and 2003 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, 2005 and 2004 was as follows (dollars in thousands):

	Year Ended December 31,	
	2005	2004
Beginning balance, loan servicing rights	$ 14,271	$ 13,882
Loan servicing rights contractual payments on previous acquisitions	27	59
Loan servicing rights recognized under SFAS No. 140	2,388	2,546
Loan servicing rights sold	(524)	(199)
Amortization expense	(2,248)	(2,017)
Ending balance, loan servicing rights	$ 13,914	$ 14,271

71

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 an 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.

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 FASB interpretations. Accordingly, compensation cost for employee stock options was measured as the excess, if any, of the estimated market price of our Class A common stock at the date of grant over the amount an employee was required to pay to acquire the stock.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123.* Awards under our stock-based compensation plans generally vest over three to five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net income (loss) for the years ended December 31, 2005, 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 and restricted stock units 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 awards. 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 our 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.

72

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31,		
	2005	2004	2003
Net income (loss) as reported	$ 217,341	$ 64,725	$ (34,704)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	3,333	698	98
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect	(3,899)	(1,207)	(648)
Pro forma net income (loss)	$ 216,775	$ 64,216	$ (35,254)
Basic income (loss) per share:			
As reported	$ 2.94	$ 0.95	$ (0.68)
Pro forma	$ 2.93	$ 0.95	$ (0.69)
Diluted income (loss) per share:			
As reported	$ 2.84	$ 0.91	$ (0.68)
Pro forma	$ 2.83	$ 0.90	$ (0.69)

The weighted average fair value of options granted by us was $16.86, $8.03 and $0.58 for the years ended December 31, 2005, 2004 and 2003, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	Year ended December 31,		
	2005	2004	2003
Risk-free interest rate	3.99%	3.12%	3.02%
Expected volatility	40.00%	37.33%	0.00%
Expected life	4 years	4 years	5 years

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

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 non-vested stock awards and 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).

Table of Contents

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 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* (SFAS No. 123R). 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. During 2005, the Securities and Exchange Commission deferred the effective date of this statement until the first annual period beginning after June 15, 2005, or in our case January 1, 2006. Effective January 1, 2006, we plan to adopt the modified-prospective method for the remaining unvested options that were granted subsequent to our Initial Public Offering in 2004 and plan to adopt the prospective method for the remaining unvested options that were granted prior to our Initial Public Offering in 2004. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29* (SFAS No. 153). The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 153 will have a material impact on our results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods financial statements of voluntary changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material effect on our consolidated 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 2004 and 2003 financial statements to conform with the 2005 presentation.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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.

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

	Liability Balance at December 31, 2004	2005 Utilization	To be Utilized
Lease termination costs	$ 23,977	$ (4,688)	$ 19,289
Legal settlements anticipated	9,285	(1,615)	7,670
Severance	5,479	(4,808)	671
Costs associated with exiting contracts	1,395	(1,326)	69
	$ 40,136	$ (12,437)	$ 27,699

The liability for lease termination costs will be paid over the remaining contract periods through 2014. The remaining liability covering our exposure in various lawsuits involving Insignia that were pending prior to the Insignia Acquisition will be paid as each case is settled. The remaining liabilities for severance and costs associated with exiting contracts are expected to be paid in full during 2006.

4. Basis of Preparation

The accompanying consolidated balance sheets as of December 31, 2005 and 2004, and the consolidated statements of operations, cash flows and stockholders equity for the years ended December 31, 2005 and 2004 include our acquired operations of Insignia for the full years. However, the consolidated statements of operations, cash flows and stockholders equity for the year ended December 31, 2003 only include the operations 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.

Unaudited pro forma results, assuming the Insignia Acquisition had occurred as of January 1, 2003 for purposes of the 2003 pro forma disclosures, are presented below. These unaudited pro forma results have been

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 and may not be indicative of future operating results (dollars in thousands, except share data):

	Year Ended December 31, 2003
	(Unaudited)
Revenue	$ 1,948,827
Operating income	17,871
Net loss	(43,923)
Basic and diluted loss per share	(0.70)
Weighted average shares outstanding for basic and diluted loss per share	62,478,565

5. Restricted Cash

Included in the accompanying consolidated balance sheets as of December 31, 2005 and 2004, is restricted cash of $5.2 million and $9.2 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the U.K.

6. Property and Equipment

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

		December 31,	
	Useful Lives	2005	2004
Computer hardware and software	3 years	$ 139,934	$ 125,753
Furniture and equipment	5 years	76,735	70,919
Leasehold improvements	1-10 years	71,566	69,125
Equipment under capital leases	1-10 years	15,041	12,526

	303,276	278,323
Accumulated depreciation	(165,621)	(140,620)
Property and equipment, net	$ 137,655	$ 137,703

Depreciation expense was $36.6 million for the year ended December 31, 2005, $33.7 million for the year ended December 31, 2004 and $28.3 million for the year ended December 31, 2003.

76

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 (dollars in thousands):

	Americas	EMEA	Asia Pacific	Global Investment Management	Total
Balance at December 31, 2003	$ 587,327	$ 195,071	$ 3,503	$ 33,657	$ 819,558
Purchase accounting adjustments related to acquisitions	(9,017)	7,089	3,878		1,950
Balance at December 31, 2004	578,310	202,160	7,381	33,657	821,508
Purchase accounting adjustments related to acquisitions	(6,793)	58,828	6,636		58,671
Balance at December 31, 2005	$ 571,517	$ 260,988	$ 14,017	$ 33,657	$ 880,179

Other intangible assets totaled $109.5 million and $113.7 million, net of accumulated amortization of $30.6 million and $23.2 million, as of December 31, 2005 and 2004, respectively, and are comprised of the following (dollars in thousands):

	December 31,			
	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortizable intangible assets				
Trademarks	$ 63,700		$ 63,700	
Trade name	19,826		19,826	
	$ 83,526		$ 83,526	
Amortizable intangible assets				
Management contracts	$ 27,769	$ (17,404)	$ 27,486	$ (14,756)
Loan servicing rights	21,571	(7,657)	20,057	(5,786)

Other	7,260	(5,525)	5,808	(2,682)
	$ 56,600	$ (30,586)	$ 53,351	$ (23,224)
Total intangible assets	$ 140,126	$ (30,586)	$ 136,877	$ (23,224)

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

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

77

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other amortizable intangible assets mainly 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 twenty years.

Amortization expense related to intangible assets was $8.9 million for the year ended December 31, 2005, $21.2 million for the year ended December 31, 2004 and $64.3 million for the year ended December 31, 2003. The estimated annual amortization expense for each of the years ended December 31, 2006 through December 31, 2010 approximates $6.8 million, $5.1 million, $4.1 million, $3.1 million and $3.0 million, respectively.

8. Investments in and Advances to Unconsolidated Subsidiaries

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting and as of December 31, 2005 and 2004 include the following (dollars in thousands):

		December 31,	
	Interest	**2005**	**2004**
Global Innovation Partners, L.L.C.	4.8%	$ 18,473	$ 22,027
CBRE Realty Finance Inc.	5.8%	17,315	
CBRE / US Advisors, LLC	50.0%	15,420	1,082
CB Commercial/Whittier Partners, L.P.	50.0%	11,658	9,232
Ikoma CB Richard Ellis KK	22.8%	6,317	5,889
CBRE Technical Services	49.9%	5,701	3,796
CB Richard Ellis Strategic Partners III, L.P.	1.1%	5,496	1,607
CB Richard Ellis Strategic Partners, L.P.	2.9%	3,321	8,399
CB Richard Ellis Strategic Partners II, L.P.	2.7%	2,286	6,078
CB Richard Ellis Realty Trust	3.7%	2,135	2,183
CB Residential Management KK	42.5%	1,633	3,044
CB Richard Ellis/Pittsburgh, L.P.	48.0%	1,451	847
Other	*	14,947	19,317
Total		$ 106,153	$ 83,501

* 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,	
	2005	2004
Current assets	$ 958,563	$ 210,374
Non current assets	$ 2,358,604	$ 2,426,286
Current liabilities	$ 556,978	$ 313,941
Non current liabilities	$ 1,016,361	$ 906,246
Minority interest	$ 14,115	$ 15,406

78

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Operations Information:

	Year Ended December 31,		
	2005	**2004**	**2003**
Net revenue	$ 483,198	$ 568,604	$ 450,542
Operating income	$ 70,813	$ 113,820	$ 111,585
Net income	$ 384,974	$ 260,702	$ 174,629

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 $61.7 million, $27.6 million and $21.6 million during the years ended December 31, 2005, 2004 and 2003, respectively.

In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C. (CBRE Investors), entered into a joint venture, Global Innovation Partners, with CalPERS. This joint venture targets real estate and private equity investments and expected opportunities created by the convergence of technology and real estate. The managing member of the joint venture is 50% owned by one of our subsidiaries. In connection with the 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.

In June 2005, CBRE Realty Finance, Inc. (CBRE Realty Finance), a real estate investment trust, was formed and is managed by our wholly owned subsidiary, CBRE Melody (formerly known as L.J. Melody & Company). On June 9, 2005, we received 300,000 shares of restricted stock and an option to purchase 500,000 shares of common stock from CBRE Realty Finance that vest in three equal annual installments. The principal business activity of CBRE Realty Finance is to originate, acquire, invest in, finance and manage a diversified portfolio of commercial real estate-related loans and securities. As of December 31, 2005, CBRE Realty Finance had total assets of $623.7 million and total equity of $279.6 million. CBRE Realty Finance is a variable interest entity as defined in FIN No. 46R. In accordance with FIN No. 46R, CBRE Realty Finance is not consolidated in our consolidated financial statements because we are not its primary beneficiary. Our maximum exposure to loss is limited to our equity investment in CBRE Realty Finance, which was approximately $17.3 million as of December 31, 2005.

9. Other Assets

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

	December 31,	
	2005	2004
Deferred financing costs, net	$ 17,633	$ 23,228
Employee loans (1)	12,745	19,613
Cost investments	8,830	11,471
Deposits	5,091	6,051
Long-term trade receivables, net	4,484	1,689
Notes receivable	4,322	5,157
Property investments held pursuant to the Island Purchase Agreement (2)	1,827	1,827
Miscellaneous	3,452	1,491
Total	$ 58,384	$ 70,527

(1) See Note 21 for additional information.

79

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) In conjunction with and immediately prior to the Insignia Acquisition, Island Fund I LLC (Island) completed the purchase of specified real estate investments 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 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.

10. Employee Benefit Plans

Stock Incentive Plans.

2001 Stock Incentive Plan. Our 2001 stock incentive plan was adopted by our board of directors and approved by our stockholders on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004, in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares remain available for issuance under it. However, as of December 31, 2005, outstanding stock awards granted under the 2001 stock incentive plan to acquire 3,572,465 shares of our Class A common stock remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards. Options granted under this plan have an exercise price of $5.77 and vest and are exercisable in 20% annual increments over five years from the date of grant. The number of shares issued pursuant to the stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

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, 2005, 2,224,551 shares were subject to options issued under our 2004 stock incentive plan and 4,201,272 shares remained available for future grants under the 2004 stock incentive plan. Options granted under this plan during 2004 have exercise prices in the range of $19.00 to $22.39 and vest and are exercisable generally in equal annual increments over three or four years from the date of grant. Options granted under this plan during 2005 have exercise prices in the range of $33.30 to $46.275 and vest and are also exercisable generally in equal annual increments over three or four years from the date of grant. 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,

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reorganizations, stock splits, stock dividends and other dilutive changes in our common stock. In addition our board of directors may adjust outstanding awards to preserve the awards benefits or potential benefits.

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

	Shares	Weighted Average Exercise Price	Exercisable Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	4,730,926	$ 6.53	769,261	$ 5.77
Granted	2,931,905	5.77		
Forfeited	(58,107)	5.77		
Outstanding at December 31, 2003	7,604,724	$ 6.24	1,538,575	$ 5.77
Exercised	(2,378,175)	7.28		
Granted	1,288,500	22.16		
Forfeited	(62,873)	5.77		
Outstanding at December 31, 2004	6,452,176	$ 9.05	1,255,055	$ 5.81
Exercised	(1,672,237)	6.85		
Granted	1,071,283	45.26		
Forfeited	(54,206)	8.53		
Outstanding at December 31, 2005	5,797,016	$ 16.38	1,548,327	$ 8.91

Option plans outstanding at December 31, 2005 and their related weighted average exercise price and life information is presented below:

	Outstanding Options			Exercisable Options	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price

$5.77		3,572,465	6.8	$ 5.77	1,260,306	$ 5.77
$19.00	$22.39	1,153,268	3.8	22.33	286,443	22.27
$33.30	$46.28	1,071,283	6.5	45.25	1,578	38.55
		5,797,016	6.2	$ 16.38	1,548,327	$ 8.91

Non-Vested Stock Awards. Under our 2004 stock incentive plan, we have issued non-vested stock awards in our Class A common stock to certain of our employees and members of our Board of Directors. The associated compensation cost is being amortized to expense over the vesting period. A summary of the non-vested stock awarded during the years ended December 31, 2004 and 2005 is as follows:

Grant Year	Shares	Weighted Average Market Value Per Share
2004	10,318	$ 19.00
2005	157,456	46.04
	167,774	$ 44.38

81

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 ended or on a future date at least three years after the deferral election date. The investment alternatives available to participants included 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, 2005, there were 1,311,724 outstanding stock fund units under the Old DCP, all of which were vested. Our stock fund unit deferrals included in additional paid-in-capital totaled $7.6 million and $13.3 million at December 31, 2005 and 2004, 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 currently 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 were 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 them.

Prior to the 2001 Merger, participants were entitled to invest their deferrals in stock fund units that entitled them to receive future distributions of shares of CBRE common stock, which stock fund units now represent the

82

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 year ended December 31, 2003. 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. 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 in the amount of $8.0 million, which has been invested in an interest bearing account on behalf of participants. The 2000 Company Match vested at 20% per year and was fully vested by December 2005. The related compensation expense was amortized over the vesting period. The amounts charged to expense for the 2000 Company match were $1.7 million for each of the years ended December 31, 2005, 2004 and 2003.

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. We amended the New DCP, effective as of November 18, 2005, to conform with U.S. Department of Treasury and Internal Revenue Service regulations. The amendment allowed any participant who elected to defer compensation in 2005 to make a one-time irrevocable election to cancel that deferral election on or before November 30, 2005.

Included in our accompanying consolidated balance sheets is an accumulated non-stock liability of $188.9 million and $166.7 million at December 31, 2005 and 2004, respectively, and assets (in the form of insurance) set aside to cover the liability of $144.6 million and $102.6 million as of December 31, 2005 and 2004, respectively. The current portion of the accumulated non-stock liability is $16.1 million and $6.4 million at December 31, 2005 and 2004, respectively, and is included in compensation and employee benefits payable in the accompanying consolidated balance sheets.

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. The remaining unpaid outstanding balance was repaid during the year ended December 31, 2005. The unpaid outstanding balance of $0.3 million as of December 31, 2004, was included in notes receivable from sale of stock in the accompanying consolidated statements of stockholders   equity.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $99.3 million for the year ended December 31, 2005, $73.3 million for the year ended December 31, 2004 and $51.8 million for the year ended December 31, 2003.

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 $3.6 million for the year ended December 31, 2005, $1.2 million for the year ended December 31, 2004 and $2.2 million for the year ended December 31, 2003.

Participants are entitled to invest up to 25% of their 401(k) account balance in shares of our common stock. As of December 31, 2005, 177,526 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 Insignia s contributions after five years. Effective July 23, 2003, we filed an application with the Internal Revenue Service (IRS) for approval of the termination of the Insignia 401(k) Plan. No further contributions were made to the Insignia 401(k) Plan and no new participants were allowed into the Insignia 401(k) Plan after that date. Upon the close of the Insignia Acquisition, participants in the Insignia 401(k) Plan were required, instead, to join our 401(k) Plan. However, loan payments were accepted into the Insignia 401(k) Plan up to the date we received IRS approval of plan termination. On June 16, 2005 we received IRS approval to terminate the Insignia 401(k) Plan. Participants were given the option of taking a lump-sum distribution or rolling over their balance into another plan. Participants still actively employed with us were given an additional option to roll over their balance into our 401(k) Plan. As of December 31, 2005, the Insignia 401(k) Plan was substantially liquidated.

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pension cost as actuarially determined and as required by applicable laws and regulations. Pension expense totaled $4.5 million for the year ended December 31, 2005, $6.5 million for the year ended December 31, 2004 and $7.8 million for the year ended December 31, 2003.

A measurement date of September 30, 2005 was used for both of our defined benefit pension plans for the year ended December 31, 2005. 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):

	Year Ended December 31,	
	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of period	$ 227,293	$ 200,186
Service cost	5,552	6,782
Interest cost	12,374	11,223
Plan participants contributions	2,494	2,332
Amendments		(6,462)
Actuarial loss	46,438	2,852
Benefits paid	(5,042)	(5,449)
Foreign currency translation	(27,406)	15,829
Benefit obligation at end of period	$ 261,703	$ 227,293
Change in plan assets		
Fair value of plan asset at beginning of period	$ 185,395	$ 155,958
Actuarial return on plan assets	38,097	15,260
Company contributions	5,183	4,668
Plan participants contributions	2,494	2,332
Benefits paid	(5,042)	(5,449)
Foreign currency translation	(21,808)	12,626
Fair value of plan assets at end of period	$ 204,319	$ 185,395
Funded status	$ (57,384)	$ (41,898)
Unrecognized net actuarial loss	46,710	28,614
Unrecognized prior service benefit	(5,344)	(6,476)
Company contributions in the post-measurement period	4,450	779
Net amount recognized	$ (11,568)	$ (18,981)

Net amount recognized in the consolidated balance sheets		
Accrued benefit liability	$ (41,194)	$ (27,871)
Accumulated other comprehensive loss	29,626	8,890
	$ (11,568)	$ (18,981)

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accumulated benefit obligation for all defined benefit pension plans was $251.4 million and $215.8 million at December 31, 2005 and 2004, respectively. Net periodic pension cost consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2005	**2004**	**2003**
Service cost	$ 5,552	$ 6,782	$ 6,248
Interest cost	12,374	11,223	7,573
Expected return on plan assets	(13,768)	(12,666)	(8,023)
Amortization of prior service benefit	(475)	(279)	
Amortization of unrecognized net loss	770	1,391	2,024
Net periodic pension cost	$ 4,453	$ 6,451	$ 7,822

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

	Year Ended December 31,	
	2005	**2004**
Discount rate	5.00%	5.70%
Expected return on plan assets	6.61%	7.72%
Rate of compensation increase	3.94%	3.94%

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

	Year Ended December 31,		
	2005	**2004**	**2003**
Discount rate	5.25%	5.66%	5.56%
Expected return on plan assets	6.97%	7.62%	7.88%
Rate of compensation increase	3.94%	3.90%	4.24%

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 2005 is based on 76.7% of the portfolio being invested in equities yielding a 7.3% real return and 19.0% of assets being primarily invested in corporate and government debt securities yielding a 4.6% 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, 2005 and 2004, by asset category are as follows:

		Plan Assets At December 31,	
Asset Category	**Target Allocation 2006**	**2005**	**2004**
Equity securities	52%-82%	76.7%	72.4%
Debt securities	13%-48%	19.0%	22.6%
Other	5%	4.3%	5.0%
Total		100.0%	100.0%

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $7.0 million to our pension plans in 2006. 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):

2006	$ 4,603
2007	5,080
2008	5,286
2009	5,746
2010	6,783
2011-2015	37,093
Total	$ 64,591

87

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Debt

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

	December 31,	
	2005	2004
Long-Term Debt:		
Senior secured term loan, with interest ranging from 3.92% to 6.67%, due from 2005 through 2010	$ 265,250	$ 277,050
11 1/4% senior subordinated notes, net of unamortized discount of $1.6 million and $2.3 million at December 31, 2005 and 2004, respectively, due in 2011	163,021	205,032
9 3/4% senior notes due in 2010	130,000	130,000
Capital lease obligations, mainly for automobiles and telephone equipment, with interest ranging from 6.2% to 7.0%, due through 2009	2,656	183
Other	142	573
Subtotal	561,069	612,838
Less current maturities of long-term debt	11,913	11,954
Total long-term debt	549,156	600,884
Short-Term Borrowings:		
Warehouse line of credit, with interest at one-month LIBOR plus 1.0% and a maturity date of February 1, 2006	66,245	138,233
Warehouse line of credit, with interest at daily Chase-London LIBOR rate plus 0.75% and a maturity date of November 14, 2006	189,718	
Total warehouse lines of credit	255,963	138,233
Westmark senior notes, with interest ranging from 4.39% to 9.0%, due on demand	11,579	12,129
Insignia acquisition loan notes, with interest ranging from 2.61% to 3.00%, due on demand	4,594	8,535
Other	16	1,072
Total short-term borrowings	272,152	159,969
Add current maturities of long-term debt	11,913	11,954
Total current debt	284,065	171,923
Total debt	$ 833,221	$ 772,807

Future annual aggregate maturities of total consolidated debt at December 31, 2005 are as follows (dollars in thousands): 2006 $284,065; 2007 $13,297; 2008 $12,402; 2009 $12,316; 2010 $348,068; and $163,073 thereafter.

Since 2001, we have maintained a credit agreement with Credit Suisse (CS) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On 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 IPO. On June 15, 2004, in connection with the completion of our IPO, we completed the refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement, which became effective in connection with such refinancing. On November 15, 2004, we entered into a first amendment

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to our new amended and restated credit agreement, which reduced the interest rate spread of our term loan and increased flexibility on certain restricted payments and investments. On May 10, 2005, we entered into a second amendment to our amended and restated credit agreement (the Credit Agreement), which relaxed the mandatory prepayment clause of the initial credit agreement by permitting us to keep cash otherwise required to be used to pay down principal, so long as our leverage ratio is below 2.5 to 1.0.

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 9 $^{3}/4$% 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) CS 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 balances in the accompanying consolidated balance sheets was $265.3 million and $277.1 million as of December 31, 2005 and 2004, 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, 2005 and 2004, we had no revolving credit facility principal outstanding. As of December 31, 2005, letters of credit totaling $13.7 million were outstanding, which letters of credit primarily relate to our subsidiaries outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

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 domestic assets. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of the unused revolving credit facility commitment.

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued $200.0 million in aggregate principal amount of 9 $^{3}/4$% senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9 $^{3}/4$% senior notes in connection with the Insignia Acquisition. The 9 $^{3}/4$% senior notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE s current and future secured indebtedness. The 9 $^{3}/4$% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9 $^{3}/4$% per year

89

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and is payable semi-annually in arrears on May 15 and November 15. The 9 3/4% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9 3/4% senior notes at 109 3/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem $70.0 million in aggregate principal amount, or 35.0%, of our 9 3/4% senior notes, which also required the payment of a $6.8 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off $3.1 million of unamortized deferred financing costs in connection with this redemption. In the event of a change of control (as defined in the indenture governing our 9 3/4% senior notes), we are obligated to make an offer to purchase the 9 3/4% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9 3/4% senior notes included in the accompanying consolidated balance sheets was $130.0 million as of December 31, 2005 and 2004, respectively.

In June 2001, in connection with the 2001 Merger, Blum CB issued $229.0 million in aggregate principal amount of 11 1/4% senior subordinated notes due June 15, 2011 for approximately $225.6 million, net of discount. CBRE assumed all obligations with respect to the 11 1/4% senior subordinated notes in connection with the 2001 Merger. The 11 1/4% senior subordinated notes are unsecured senior subordinated obligations of CBRE and rank equally in right of payment with any of CBRE s existing and future unsecured senior subordinated indebtedness, but are subordinated to any of CBRE s existing and future senior indebtedness. The 11 1/4% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11 1/4% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111 1/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11 1/4% senior subordinated notes), we are obligated to make an offer to purchase the 11 1/4% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June of 2004, we repurchased $21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid $3.1 million of premiums and wrote off $0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. During the year ended December 31, 2005, we repurchased an additional $42.7 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid an aggregate of $5.9 million of premiums and wrote off $1.5 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. The amount of the 11 1/4% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $163.0 million and $205.0 million as of December 31, 2005 and 2004, 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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Our Credit Agreement and the indentures governing our 9 $^{3}/4$% senior notes and our 11 $^{1}/4$% 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.

We had short-term borrowings of $272.2 million and $160.0 million with related average interest rates of 5.2% and 3.7% as of December 31, 2005 and 2004, respectively.

Our wholly owned subsidiary, CBRE Melody, has credit agreements with Washington Mutual Bank, FA (WaMu) and JP Morgan Chase Bank, N.A. (JP Morgan) for the purpose of funding mortgage loans that will be resold. The credit agreement with WaMu was previously with Residential Funding Corporation (RFC). On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provided for a warehouse line of credit of up to $250.0 million, bore interest at one-month LIBOR plus 1.0% and expired on September 1, 2005. This agreement provided for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On December 13, 2004, we and RFC 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 was for the period from December 20, 2004 to and including January 20, 2005. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. During the latter half of 2005, we executed several amendments to the warehouse line of credit with WaMu, which extended the agreement, the last of which extended the agreement until February 1, 2006.

On November 15, 2005, CBRE Melody entered into a Secured Credit Agreement with JP Morgan to establish an additional warehouse line of credit. This agreement provides for a $250.0 million senior secured revolving line of credit, bears interest at the daily Chase London LIBOR rate plus 0.75% and expires on November 14, 2006.

During the years ended December 31, 2005 and 2004, respectively, we had a maximum of $256.0 million and $279.8 million warehouse lines of credit principal outstanding. As of December 31, 2005 and 2004, we had $256.0 million and $138.2 million of warehouse lines of credit principal outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $256.0 million and $138.2 million of mortgage loans held for sale (warehouse receivables), which represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased as of December 31, 2005 and 2004, 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 redeemable at the

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement. On May 31, 2005, with the exception of one note holder, we entered into an amendment to eliminate a letter of credit requirement and adjust the interest rate to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement plus twelve basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.6 million and $12.1 million as of December 31, 2005 and 2004, respectively.

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, 2005 and 2004, $4.6 million and $8.5 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

During 2005, in conjunction with the acquisition of properties held for sale in our European investment management business, we entered into debt agreements with ING Real Estate Finance N.V. (ING Real Estate) and The Royal Bank of Scotland (RBS). The agreement with ING Real Estate related to a property held for sale in Germany and provided for the borrowing of 19.0 million euros of acquisition indebtedness and 5.1 million euros of construction/upgrade financing. The 19.0 million principal had a floating rate component with respect to 8.0 million euros and a fixed rate component with respect to 11.0 million euros. The floating rate was tied to the three-month Euribor rate plus 0.95%. The fixed rate was equal to the Euro Interest Rate Swap Rate plus 1.05% for up to three years. The 5.1 million euro construction financing principal accrued interest based upon the aforementioned indices in both fixed and floating rate components. During the quarter ended September 30, 2005, we completed the sale of the German property held for sale and utilized the proceeds from the sale to repay all of the related debt. The agreement with RBS related to two properties held for sale in France and provided for the borrowing of 24.1 million euros. Interest accrued at a rate based on the three-month Euribor rate plus 1.20% and was payable quarterly in arrears. During the fourth quarter of 2005, we sold the majority of our ownership interests in our investment in two French properties held for sale. As a result of the dilution of our ownership interests in this investment, the assets and the related debt amounts were deconsolidated and are no longer included in our consolidated balance sheet. The operating results related to these properties held for sale were not significant for the year ended December 31, 2005.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. As of December 31, 2005 and 2004, there were no amounts outstanding under this facility.

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.

Table of Contents

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, 2005 (dollars in thousands):

	Capital leases	Operating leases
2006	$ 935	$ 110,706
2007	816	98,610
2008	676	90,067
2009	596	81,986
2010		73,701
Thereafter		266,942
Total minimum payment required	$ 3,023	$ 722,012

The interest portion of capital lease payments represents the amount necessary to reduce net minimum lease payments to present value calculated at our incremental borrowing rate at the inception of the leases. This totaled approximately $0.4 million at December 31, 2005, resulting in a present value of net minimum lease payments of $2.7 million. At December 31, 2005, $0.8 million and $1.9 million were included in current maturities of long-term debt and long-term debt, respectively. In addition, the total minimum payments for noncancellable operating leases were not reduced by the minimum sublease rental income of $13.3 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):

	Year Ended December 31,		
	2005	2004	2003
Minimum rentals	$ 121,672	$ 112,256	$ 81,361
Less sublease rentals	(687)	(1,152)	(2,134)
	$ 120,985	$ 111,104	$ 79,227

We had an outstanding letter of credit totaling $0.6 million as of December 31, 2005, excluding letters of credit related to our subsidiaries outstanding indebtedness and operating leases. Our wholly owned subsidiary, CBRE Melody, previously executed an agreement with Federal National Mortgage Association (Fannie Mae) to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its warehouse 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 $62.7 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 $0.6 million. The other 1% is covered in the form of a guarantee to Fannie Mae. The letter of credit expires on December 10, 2006, however, we are obligated to renew the letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling $2.3 million as of December 31, 2005, which includes the guarantee to Fannie Mae discussed above, as well as various guarantees of management contracts in our operations overseas. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007. The other guarantees will expire at the end of each of the respective management agreements.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2005, we had committed $31.2 million to fund future co-investments.

13. Income Taxes

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

	Year Ended December 31,		
	2005	**2004**	**2003**
Federal:			
Current	$ 82,431	$ (3)	$ (5,335)
Deferred	(7,367)	9,324	(6,637)
	75,064	9,321	(11,972)
State:			
Current	11,016		
Deferred	2,293	1,185	(1,613)
	13,309	1,185	(1,613)
Foreign:			
Current	48,792	28,504	6,642
Deferred	1,716	4,519	667
	50,508	33,023	7,309
	$ 138,881	$ 43,529	$ (6,276)

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

Year Ended December 31,

	2005	2004	2003
Federal statutory tax rate	35%	35%	(35)%
Permanent differences	1	(1)	1
State taxes, net of federal benefit	2	1	(3)
Taxes on foreign income which differ from the U.S. statutory rate	(1)	5	21
Other	2		1
Effective tax rate	39%	40%	(15)%

The domestic component of income (loss) before provision (benefit) for income taxes included in the accompanying consolidated statements of operations was $206.9 million for the year ended December 31, 2005, $30.4 million for the year ended December 31, 2004 and $(31.6) million for the year ended December 31, 2003. The international component of income (loss) before provision (benefit) for income taxes was $149.3 million for the year ended December 31, 2005, $77.9 million for the year ended December 31, 2004 and $(9.4) million for the year ended December 31, 2003.

During the year ended December 31, 2005 and 2004, respectively, we recorded a $21.1 million and $9.1 million income tax benefit in connection with stock options exercised. Of this income tax benefit, $20.6 million and $9.1 million was charged directly to additional paid-in capital within the stockholders equity section of the accompanying consolidated balance sheets in 2005 and 2004, respectively.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cumulative tax effects of temporary differences are shown below at December 31, 2005 and 2004 (dollars in thousands):

	December 31,	
	2005	**2004**
Asset (Liability)		
Property and equipment	$ 615	$ 3,650
Bad debt and other reserves	45,953	38,560
Capitalized costs and intangibles	(42,283)	(41,947)
Bonus and deferred compensation	108,427	76,655
Investment	10,817	8,092
NOL, alternative minimum tax credit and charitable contribution carryforwards and state tax credits	16,357	37,916
Unconsolidated affiliates	5,576	2,554
Pension obligation	13,677	10,741
Acquisition	1,486	668
All other	2,827	2,344
Net deferred tax assets before valuation allowances	163,452	139,233
Valuation allowances	(30,623)	(37,640)
Net deferred tax assets	$ 132,829	$ 101,593

Total deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 were as follows (dollars in thousands):

	December 31,	
	2005	**2004**
Total deferred tax assets	$ 251,630	$ 198,762
Deferred tax assets valuation allowances	(30,623)	(37,640)
	221,007	161,122
Total deferred tax liabilities	(88,178)	(59,529)
Net deferred tax assets	$ 132,829	$ 101,593

As of December 31, 2005, we had U.S. federal NOL carryforwards of approximately $4.2 million, translating to a deferred tax asset before valuation allowance of $1.5 million. These NOLs expire in 2023 and 2024. As of December 31, 2005, there were also deferred tax assets of approximately $5.6 million related to state NOLs as well as $8.3 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, 2005, $30.6 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, 2005, our valuation allowances decreased by approximately $7.0 million, primarily as a result of our determination that a portion of the net operating losses and capital losses for which a net deferred tax asset valuation allowance had previously been recorded would be utilized. Since the assets were established in connection with the 2001 Merger and the Insignia Acquisition, the reduction of the valuation allowance resulted in a decrease to goodwill.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act created 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. In December 2005, we elected to repatriate approximately $56.0 million under the provisions of the Act, which resulted in a $3.5 million charge to income tax expense for the year ended December 31, 2005.

A deferred U.S. tax liability has not been provided on the remaining 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 $185.7 million at December 31, 2005. The determination of the tax liability upon repatriation is not practicable.

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 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,								
	2005			2004			2003		
	Income	Shares	Per Share	Income	Shares	Per Share	Loss	Shares	Per Share

			Amount			Amount			Amount
Basic earnings (loss) per share:									
Net income (loss) applicable to common stockholders	$ 217,341	74,043,022	$ 2.94	$ 64,725	67,775,406	$ 0.95	$ (34,704)	50,918,572	$ (0.68)
Diluted earnings (loss) per share:									
Net income (loss) applicable to common stockholders	$ 217,341	74,043,022		$ 64,725	67,775,406		$ (34,704)	50,918,572	
Dilutive effect of contingently issuable shares		9,654			1,010,753				
Dilutive effect of incremental stock options		2,565,676			2,558,914				
Net income (loss) applicable to common stockholders	$ 217,341	76,618,352	$ 2.84	$ 64,725	71,345,073	$ 0.91	$ (34,704)	50,918,572	$ (0.68)

96

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The following items were not included in the computation of diluted loss per share:

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

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 $759.8 million and $676.3 million at December 31, 2005 and 2004, respectively.

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

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

Warehouse Receivables: Due to their short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of funded mortgage loans and generally reflects the values of the WaMu and JP Morgan warehouse lines of credit outstanding (See Note 11).

Short-Term Borrowings: The majority of this balance represents the WaMu and the JP Morgan warehouse lines 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 \$177.8 million and \$236.4 million at December 31, 2005 and 2004, respectively. Their actual carrying value totaled \$163.0 million and \$205.0 million at December 31, 2005 and 2004, respectively (See Note 11).

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 3/4% Senior Notes: Based on dealers quotes, the estimated fair value of the 9 3/4% senior notes was $141.7 million and $148.2 million at December 31, 2005 and 2004, respectively. Their actual carrying value totaled $130.0 million at December 31, 2005 and 2004, respectively (See Note 11).

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

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

	2003 Charges	2004 Charges	Utilized To Date	To be Utilized
Lease termination costs	$ 15,805	$ 19,643	$ (17,146)	$ 18,302
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	$ 36,817	$ 25,574	$ (44,089)	$ 18,302

19. Guarantor and Nonguarantor Financial Statements

The 9 3/4% senior notes, the 11 1/4% senior subordinated notes, and the Credit Agreement are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. (see Note 11 for additional information).

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of December 31, 2005 and 2004; condensed consolidating statements of operations for the years ended December 31, 2005, 2004 and 2003 and condensed consolidating statements of cash flows for the years ended December 31, 2005, 2004 and 2003 of (a) CB Richard Ellis Group as the parent, (b) CBRE as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CB Richard Ellis Group on a consolidated basis; and

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

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2005

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 6	$ 106,449	$ 305,956	$ 36,878	$	$ 449,289
Restricted cash			4,698	481		5,179
Receivables, less allowance for doubtful accounts	3		178,724	304,448		483,175
Warehouse receivables (a)			255,963			255,963
Prepaid expenses and other current assets	46,612	80	22,438	30,211		99,341
Total Current Assets	46,621	106,529	767,779	372,018		1,292,947
Property and equipment, net			80,290	57,365		137,655
Goodwill			556,399	323,780		880,179
Other intangible assets, net			85,093	24,447		109,540
Deferred compensation assets		144,597				144,597
Investments in and advances to unconsolidated subsidiaries		6,362	82,007	17,784		106,153
Investments in consolidated subsidiaries	651,017	541,718	321,177		(1,513,912)	
Inter-company loan receivable	93,605	571,708			(665,313)	
Deferred tax assets, net	86,217					86,217
Other assets, net	250	17,839	28,901	11,394		58,384
Total Assets	$ 877,710	$ 1,388,753	$ 1,921,646	$ 806,788	$ (2,179,225)	$ 2,815,672
Current Liabilities:						
Accounts payable and accrued expenses	$	$ 6,594	$ 103,686	$ 143,805	$	$ 254,085
Compensation and employee benefits payable			119,521	70,463		189,984
Accrued bonus and profit sharing			155,664	169,309		324,973
Income taxes payable	63,918					63,918
Short-term borrowings:						
Warehouse lines of credit (a)			255,963			255,963
Other			16,189			16,189
Total short-term borrowings			272,152			272,152
Current maturities of long-term debt		11,800		113		11,913
Other current liabilities	20,107		671			20,778
Total Current Liabilities	84,025	18,394	651,694	383,690		1,137,803
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		163,021				163,021
Senior secured term loan		253,450				253,450
9 3/4% senior notes		130,000				130,000
Inter-company loan payable			647,228	18,085	(665,313)	
Other long-term debt				2,685		2,685

Total Long-Term Debt		546,471	647,228	20,770	(665,313)	549,156
Deferred compensation liability		172,871				172,871
Pension liability				41,194		41,194
Other liabilities			81,006	33,133		114,139
Total Liabilities	84,025	737,736	1,379,928	478,787	(665,313)	2,015,163
Commitments and contingencies						
Minority interest				6,824		6,824
Stockholders Equity	793,685	651,017	541,718	321,177	(1,513,912)	793,685
Total Liabilities and Stockholders Equity	$ 877,710	$ 1,388,753	$ 1,921,646	$ 806,788	$ (2,179,225)	$ 2,815,672

(a) Although CBRE Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 3/4% senior notes, 11 1/4% senior subordinated notes and our Credit Agreement, all warehouse receivables funded under the WaMu and JP Morgan lines of credit are pledged to WaMu and JP Morgan, and accordingly are not included as collateral for these notes or our other outstanding debt.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2004

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
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 receivables (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			147,692	119,220		266,912
Short-term borrowings:						
Warehouse lines 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	467,781	290,348		804,980
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		205,032				205,032
Senior secured term loan		265,250				265,250
9 3/4% 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			74,125	65,493		139,618
Total Liabilities	29,206	778,208	1,293,165	473,622	(868,438)	1,705,763
Commitments and contingencies						
Minority interest				5,925		5,925
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 CBRE Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9 3/4% senior notes, 11 1/4% senior subordinated notes and our Credit Agreement, all warehouse receivables funded under the WaMu and JP Morgan lines of credit are pledged to WaMu and JP Morgan, and accordingly are not included as collateral for these notes or our other outstanding debt.

100

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$ (117)	$ 1,976,781	$ 933,977	$	$ 2,910,641
Costs and expenses:						
Cost of services			1,064,925	405,162		1,470,087
Operating, administrative and other	6,029	5,048	641,865	369,690		1,022,632
Depreciation and amortization			28,069	17,447		45,516
Operating (loss) income	(6,029)	(5,165)	241,922	141,678		372,406
Equity income from unconsolidated subsidiaries		4,718	30,263	3,444		38,425
Minority interest expense				2,163		2,163
Interest income	92	42,559	6,737	2,103	(42,224)	9,267
Interest expense	112	51,803	37,859	6,777	(42,224)	54,327
Loss on extinguishment of debt		7,386				7,386
Equity income from consolidated subsidiaries	221,079	229,173	87,777		(538,029)	
Income before (benefit) provision for income taxes	215,030	212,096	328,840	138,285	(538,029)	356,222
(Benefit) provision for income taxes	(2,311)	(8,983)	99,667	50,508		138,881
Net income	$ 217,341	$ 221,079	$ 229,173	$ 87,777	$ (538,029)	$ 217,341

101

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
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	16,473	3,723		20,977
Minority interest expense				1,502		1,502
Interest income	185	53,585	3,249	3,444	(53,537)	6,926
Interest expense	4,094	58,874	48,363	10,286	(53,537)	68,080
Loss on extinguishment of debt	7,166	13,909				21,075
Equity income from consolidated subsidiaries	74,467	96,896	36,663		(208,026)	
Income before (benefit) provision for income taxes	61,224	65,546	119,825	69,685	(208,026)	108,254
(Benefit) provision for income taxes	(3,501)	(8,921)	22,929	33,022		43,529
Net income	$ 64,725	$ 74,467	$ 96,896	$ 36,663	$ (208,026)	$ 64,725

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
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	14,433	365		14,930
Minority interest expense				565		565
Interest income	185	39,312	2,659	1,320	(38,853)	4,623
Interest expense	4,336	61,907	38,046	6,883	(38,853)	72,319
Loss on extinguishment of debt	13,479					13,479
Equity loss from consolidated subsidiaries	(21,214)	(8,432)	(17,354)		47,000	
Loss before (benefit) provision for income taxes	(39,270)	(35,868)	(2,796)	(10,046)	47,000	(40,980)
(Benefit) provision for income taxes	(4,566)	(14,654)	5,636	7,308		(6,276)
Net loss	$ (34,704)	$ (21,214)	$ (8,432)	$ (17,354)	$ 47,000	$ (34,704)

103

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:	$ 76,620	$ (30,649)	$ 187,639	$ 126,046	$ 359,656
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of servicing rights and other assets			2,892	757	3,649
Investment in property held for sale				(64,828)	(64,828)
Disposition of investment in property held for sale				64,828	64,828
Capital expenditures			(21,544)	(16,207)	(37,751)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(7,023)	(68,671)	(75,694)
Contributions to unconsolidated subsidiaries, net of capital distributions		2,721	(12,980)	(916)	(11,175)
Decrease in restricted cash			4,037	10	4,047
Other investing activities, net		64	1,010	341	1,415
Net cash provided by (used in) investing activities		2,785	(33,608)	(84,686)	(115,509)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of senior secured term loan		(11,800)			(11,800)
Proceeds from debt related to property held for sale				53,543	53,543
Repayment of debt related to property held for sale				(53,543)	(53,543)
(Repayment of) proceeds from euro cash pool and other loans, net			(3,897)	1,364	(2,533)
Repayment of 11 $^{1}/4$% senior subordinated notes		(42,700)			(42,700)
Proceeds from exercise of stock options	11,450				11,450
Payment of deferred financing fees		(318)			(318)
(Increase) decrease in inter-company receivables, net	(91,976)	186,325	(60,641)	(33,708)	
Other financing activities, net	416			(1,787)	(1,371)
Net cash (used in) provided by financing activities	(80,110)	131,507	(64,538)	(34,131)	(47,272)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,490)	103,643	89,493	7,229	196,875
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3,496	2,806	216,463	34,131	256,896
Effect of currency exchange rate changes on cash				(4,482)	(4,482)

CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 6	$ 106,449	$ 305,956	$ 36,878	$ 449,289
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest	$	$ 51,625	$ 773	$	$ 52,398
Income taxes, net of refunds	$ 57,485	$	$	$	$ 57,485

104

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:	$ 37,164	$ (4,726)	$ 126,154	$ 28,615	$ 187,207
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)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(10,906)	(14,236)	(25,142)
Contributions to unconsolidated subsidiaries, net of capital distributions		(490)	(5,653)	(2,786)	(8,929)
Decrease in restricted cash			3,810	2,660	6,470
Other investing activities, net			1,339	(6,240)	(4,901)
Net cash (used in) provided by investing activities		(490)	(43,464)	15,603	(28,351)
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 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 9 3/4% senior notes		(70,000)			(70,000)
Repayment of 11 1/4% 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	$ 3,496	$ 2,806	$ 216,463	$ 34,131	$ 256,896
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest	$ 7,050	$ 67,020	$ 1,548	$ 3,136	$ 78,754
Income taxes, net of refunds	$ 17,915	$	$	$	$ 17,915

105

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$ (30,872)	$ 5,067	$ 73,771	$ 39,580	$ 87,546
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of servicing rights and other assets			3,753	196	3,949
Capital expenditures			(17,449)	(22,850)	(40,299)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(276,401)	12,718	(263,683)
Contributions to unconsolidated subsidiaries, net of capital distributions			(6,820)	(4,967)	(11,787)
Decrease in restricted cash				873	873
Other investing activities, net			2,528	19	2,547
Net cash used in investing activities			(294,389)	(14,011)	(308,400)
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		(298,475)			(298,475)
Proceeds from 9 $^{3}/4$% senior notes		200,000			200,000
Repayment of notes payable		(43,000)			(43,000)
Repayment of 16% senior notes	(30,000)				(30,000)
Proceeds from euro cash pool loan and other loans, net			(914)	3,943	3,029
Payment of deferred financing fees	(8)	(22,699)			(22,707)
Proceeds from issuance of common stock, net	120,980				120,980
(Increase) decrease in inter-company receivables, net	(56,894)	(215,930)	296,111	(23,287)	
Other financing activities, net	(325)			(838)	(1,163)
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	$ 3,008	$ 17	$ 148,752	$ 12,104	$ 163,881
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest	$ 15,823	$ 44,201	$ 1,491	$ 2,203	$ 63,718
Income taxes, net of refunds	$ 17,783	$	$	$	$ 17,783

106

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Industry Segments

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

The Americas 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.

Table of Contents

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,		
	2005	2004	2003
Revenue			
Americas	$ 2,011,647	$ 1,660,307	$ 1,155,461
EMEA	594,081	459,741	298,725
Asia Pacific	177,603	151,034	107,501
Global Investment Management	127,310	94,014	68,387
	$ 2,910,641	$ 2,365,096	$ 1,630,074
Operating income (loss)			
Americas	$ 242,837	$ 106,704	$ 30,175
EMEA	94,334	30,902	(20,851)
Asia Pacific	23,846	18,553	7,046
Global Investment Management	11,389	14,849	9,460
	372,406	171,008	25,830
Equity income from unconsolidated subsidiaries			
Americas	14,096	10,709	8,467
EMEA	282	83	14
Asia Pacific	1,187	936	132
Global Investment Management	22,860	9,249	6,317
	38,425	20,977	14,930
Minority interest expense (income)			
Americas	828	421	394
EMEA	591	602	220
Asia Pacific	178	381	(229)
Global Investment Management	566	98	180
	2,163	1,502	565
Interest income	9,267	6,926	4,623
Interest expense	54,327	68,080	72,319
Loss on extinguishment of debt	7,386	21,075	13,479
Income (loss) before provision (benefit) for income taxes	$ 356,222	$ 108,254	$ (40,980)
Depreciation and amortization			
Americas	$ 30,782	$ 37,514	$ 56,865

EMEA	10,468	12,050	31,110
Asia Pacific	2,430	2,476	2,226
Global Investment Management	1,836	2,817	2,421
	$ 45,516	$ 54,857	$ 92,622

	December 31,		
	2005	2004	2003
	(Dollars in thousands)		
Capital expenditures			
Americas	$ 25,451	$ 39,470	$ 17,965
EMEA	7,666	10,038	19,406
Asia Pacific	3,572	2,180	1,605
Global Investment Management	1,062	1,265	1,323
	$ 37,751	$ 52,953	$ 40,299

108

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31,	
	2005	2004
	(Dollars in thousands)	
Identifiable assets		
Americas	$ 1,412,497	$ 1,209,695
EMEA	579,347	473,239
Asia Pacific	92,936	78,309
Global Investment Management	148,774	151,904
Corporate	582,118	358,489
	$ 2,815,672	$ 2,271,636

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

	December 31,	
	2005	2004
	(Dollars in thousands)	
Investments in and advances to unconsolidated subsidiaries		
Americas	$ 41,503	$ 19,636
EMEA	389	144
Asia Pacific	6,587	6,042
Global Investment Management	57,674	57,679
	$ 106,153	$ 83,501

Geographic Information:

	Year ended December 31,		
	2005	2004	2003

	(Dollars in thousands)		
Revenue			
U.S.	$ 1,976,615	$ 1,617,315	$ 1,137,986
U.K.	355,540	294,934	179,792
All other countries	578,486	452,847	312,296
	$ 2,910,641	$ 2,365,096	$ 1,630,074

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

	December 31,	
	2005	2004
	(Dollars in thousands)	
Long-lived assets		
U.S.	$ 80,290	$ 82,714
U.K.	28,035	33,611
All other countries	29,330	21,378
	$ 137,655	$ 137,703

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

Table of Contents

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Related Party Transactions

Included in other current and other assets, net in the accompanying consolidated balance sheets are employee loans of $26.6 million and $25.5 million as of December 31, 2005 and 2004, 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 2010.

The accompanying consolidated balance sheets also include $0.1 million and $0.4 million of notes receivable from sale of stock as of December 31, 2005 and 2004, 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.

As of December 31, 2004, Mr. White had an outstanding loan balance of $257,300 in connection with his purchase of shares in 1998 under our 1996 Equity Incentive Plan, which amount is included in notes receivable from the sale of stock in the accompanying consolidated balance sheet. All interest charged on the outstanding loan balances for any year was forgiven if Mr. White s performance produced a high enough level of bonus, with approximately $7,500 of interest forgiven for each $10,000 of bonus. All interest on Mr. White s loan was forgiven in 2004 and 2005 as a result of Mr. White s bonus earnings. Mr. White repaid this loan in full on February 15, 2005.

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 other unaffiliated investors. Bradford Freeman, one of our directors, has invested $5.0 million, Richard Blum, our Chairman of the Board, has invested $2.5 million, Frederic Malek, one of our directors, has invested $1.2 million, Ray Wirta, our former Chief Executive Officer and current director, has invested $0.5 million and Cal Frese, one of our executive officers, has invested $0.2 million in CBRE Realty Finance, Inc., a real estate investment trust managed and sponsored by an affiliate of ours as well as by our subsidiary, CBRE Melody. These investments have been made on the same terms as unaffiliated investors. Additionally, Mr. Malek has committed to invest $2.0 million, Blum Family Partners, L.P., a significant stockholder affiliated with Richard Blum, our Chairman of the Board, has committed to invest $1.5 million and Mr. Wirta has committed to invest $1.0 million in CB Richard Ellis Strategic Partners IV, L.P. (through pooled co-investment vehicles organized for the investment of certain employees). Previously, Mr. Wirta invested an aggregate of $25,000, $50,000 and $75,000, respectively 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 Strategic Partner funds are closed-end real estate investment funds managed and sponsored by our subsidiary, CBRE Investors. Each of these investments has been approved by our Board of Directors, including all of the disinterested members.

CBRE Investors and certain investment funds managed by it, retained the law firm of Mayer, Brown, Rowe & Maw LLP, including its predecessors, to provide legal services during each of 2005, 2004 and 2003. Mr. Kantor, who has been a member of our Board since February 2004, currently is a partner at Mayer, Brown, Rowe and Maw LLP.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

QUARTERLY RESULTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31, 2005	Three Months Ended September 30, 2005	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005
	(Dollars in thousands, except share data)			
Revenue	$ 956,014	$ 744,198	$ 672,163	$ 538,266
Operating income	158,969	95,884	80,924	36,629
Net income	95,412	56,936	50,421	14,572
Basic EPS (1)	1.28	0.77	0.68	0.20
Weighted average shares outstanding for basic EPS (1)	74,710,557	74,177,337	73,785,232	73,532,843
Diluted EPS (1)	$ 1.24	$ 0.74	$ 0.66	$ 0.19
Weighted average shares outstanding for diluted EPS (1)	77,181,108	76,777,271	76,365,899	76,184,725

	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004	Three Months Ended June 30, 2004	Three Months Ended March 31, 2004
	(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

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

Table of Contents

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 Securities Exchange Act Rules 13a-15(f), including maintenance of (i) records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, 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) our receipts and expenditures are being made only in accordance with authorizations of management and our Board of Directors and (c) prevention or timely detection of unauthorized acquisition, use, or disposition of our 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, 2005. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 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

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

Table of Contents

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, 2005, 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, 2005, 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, 2005, 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, 2005 of the Company and our report dated March 14, 2006 expressed an unqualified opinion on these financial statements and the financial statement schedule.

DELOITTE & TOUCHE LLP

Los Angeles, California

March 14, 2006

Table of Contents

Item 9b. Other Information

Not applicable.

Item 10. Directors and Executive Officers of the Registrant

The information under the headings Information About the Board , Corporate Governance , Executive Officers and Stock Ownership in the definitive proxy statement for our 2006 Annual Meeting of Stockholders is incorporated herein by reference.

We filed the certifications by the Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act as an exhibit to this Annual Report on Form 10-K.

On June 27, 2005, Brett White, our Chief Executive Officer and President, submitted to the New York Stock Exchange the Annual Written Affirmation required by Section 303A of the Corporate Governance Rules of the New York Stock Exchange certifying that he was not aware of any violations by CB Richard Ellis Group, Inc. of the New York Stock Exchange s corporate governance listing standards.

Item 11. Executive Compensation

The information contained under the headings Information About the Board Compensation of Directors , Information About the Board Board Committees , Corporate Governance Compensation Committee Interlocks and Insider Participation and Executive Compensation in the definitive proxy statement for our 2006 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 our 2006 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 our 2006 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the headings Corporate Governance Principal Accountant Fees and Services in the definitive proxy statement for our 2006 Annual Meeting of Stockholders is incorporated herein by reference.

114

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. *Financial Statements*

See Index to Consolidated Financial Statements set forth on page 60.

2. *Financial Statement Schedule*

See Schedule II on page 116.

3. Exhibits

See Exhibit Index beginning on page 118 hereof.

Table of Contents

CB RICHARD ELLIS GROUP, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(Dollars in thousands)

	Allowance for Doubtful Accounts
Balance, December 31, 2002	$ 10,892
Acquired in connection with the Insignia Acquisition	5,061
Charges to expense	3,436
Write-offs, payments and other	(3,208)
Balance, December 31, 2003	16,181
Charges to expense	2,367
Write-offs, payments and other	(3,737)
Balance, December 31, 2004	14,811
Charges to expense	4,214
Write-offs, payments and other	(3,379)
Balance, December 31, 2005	$ 15,646

Table of Contents

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/ Brett White
Brett White

Chief Executive Officer

Date: March 14, 2006

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.

Signature	Title	Date
/s/ Richard C. Blum **Richard C. Blum**	Chairman of the Board	March 14, 2006
/s/ Gil Borok **Gil Borok**	Global Controller (principal accounting officer)	March 14, 2006
/s/ Jeffrey A. Cozad **Jeffrey A. Cozad**	Director	March 14, 2006
/s/ Patrice Marie Daniels **Patrice Marie Daniels**	Director	March 14, 2006
/s/ Thomas A. Daschle **Thomas A. Daschle**	Director	March 14, 2006
/s/ Bradford M. Freeman **Bradford M. Freeman**	Director	March 14, 2006
/s/ Michael Kantor **Michael Kantor**	Director	March 14, 2006

/s/ KENNETH J. KAY **Kenneth J. Kay**	Chief Financial Officer (principal financial officer)	March 14, 2006
/s/ FREDERIC V. MALEK **Frederic V. Malek**	Director	March 14, 2006
/s/ JOHN G. NUGENT **John G. Nugent**	Director	March 14, 2006
/s/ BRETT WHITE **Brett White**	Director and Chief Executive Officer (principal executive officer)	March 14, 2006
/s/ GARY L. WILSON **Gary L. Wilson**	Director	March 14, 2006
/s/ RAY WIRTA **Ray Wirta**	Vice Chairman	March 14, 2006

117

Table of Contents

EXHIBIT INDEX

Exhibit	Description
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)
4.2(d)	Third Amendment and Waiver to Securityholders Agreement, dated as of August 1, 2005, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement (incorporated by reference to Exhibit 4.1 of the CB Richard Ellis Group, Inc. Current Report on Form 8-K filed with the SEC on August 2, 2005)
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)

Table of Contents

Exhibit	Description
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)
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 1/4% 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)

Table of Contents

Exhibit	Description
10.1(d)	Amendment No. 2 to Credit Agreement, dated as of May 10, 2005, 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 of the CB Richard Ellis Group, Inc. Amendment No. 1 to Quarterly Report on Form 10-Q/A filed with the SEC on March 14, 2006)
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)*
10.3(a)	Amended and Restated 2004 Stock Incentive Plan of CB Richard Ellis Group, Inc. (incorporated by reference to Exhibit 10.3 of the CB Richard Ellis Group, Inc. Quarterly Report on Form 10-Q filed with the SEC on May 10, 2005)*
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(a)	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)*

Exhibit	Description
10.12(b)	Amendment, dated as of November 18, 2005, to CB Richard Ellis Services, Inc. Amended and Restated Deferred Compensation Plan*, **
10.13	Agreement, dated as of January 23, 2005, between Alan Froggatt and CB Richard Ellis Limited (incorporated by reference to Exhibit 10.13 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 15, 2005)*
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. (incorporated by reference to Exhibit 10.14 of the CB Richard Ellis Group, Inc. Annual Report on Form 10-K filed with the SEC on March 15, 2005)*
10.15	Executive Bonus Plan, amended as of January 1, 2006 (incorporated by reference to Exhibit 10.1 of the CB Richard Ellis Group, Inc. Current Report on Form 8-K filed with the SEC on February 6, 2006)*
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 Independent Registered Public Accounting Firm**
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