

CB RICHARD ELLIS GROUP INC

Form S-1/A

June 07, 2004

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As filed with the Securities and Exchange Commission on June 7, 2004

Registration No. 333-112867

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Amendment No. 5

to

## FORM S-1

## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

## CB Richard Ellis Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

6500  
(Primary Standard Industrial  
Classification Code Number)

94-3391143  
(I.R.S. Employer  
Identification No.)

865 South Figueroa Street, Suite 3400

Los Angeles, CA 90017

(213) 438-4880

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Kenneth J. Kay

Chief Financial Officer

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**CB Richard Ellis Group, Inc.**

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

**865 South Figueroa Street, Suite 3400**

**Los Angeles, CA 90017**

**(213) 438-4880**

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

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*With copies to:*

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**Stephen L. Burns**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "  "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "  \_\_\_\_\_ "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "  \_\_\_\_\_ "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "  \_\_\_\_\_ "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "  "

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**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 7, 2004

24,000,000 Shares

**CB Richard Ellis Group, Inc.**

**Class A Common Stock**

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

We are selling 7,142,857 shares of Class A common stock and the selling stockholders are selling 16,857,143 shares of Class A common stock. We will not receive any of the proceeds from the shares of Class A common stock sold by the selling stockholders.

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

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

<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to CB Richard Ellis Group</u>	<u>Proceeds to Selling Stockholders</u>
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Per Share	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$

Delivery of the shares of Class A common stock will be made on or about \_\_\_\_\_, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse First Boston**

**Citigroup**

**JPMorgan**

**Lehman Brothers**

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

**Goldman, Sachs & Co.**

**Merrill Lynch & Co.**

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

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

*CB Richard Ellis and the CBRE CB Richard Ellis corporate logo set forth on the cover of this prospectus are the registered trademarks of CB Richard Ellis Group, Inc. and its subsidiaries in the United States. All other trademarks or service marks are trademarks or service marks of the companies that use them.*

*Industry and market data used in this prospectus were obtained from our own research, publicly available studies conducted by third parties and publicly available industry and general publications published by third parties and, in some cases, are management estimates based on its industry and other knowledge. While we believe our research and management estimates are reliable, they have not been verified by independent sources.*

*Some figures in this prospectus may not total due to rounding adjustments.*

### **Dealer Prospectus Delivery Obligation**

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



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**PROSPECTUS SUMMARY**

*This summary may not contain all of the information that may be important to you. You should read this summary together with the entire prospectus, including the information presented under the heading "Risk Factors" and the more detailed information in the financial statements and related notes appearing elsewhere in this prospectus, before making an investment decision. Unless the context indicates otherwise, (1) references in this prospectus to "common stock" mean our Class A common stock and (2) information presented on a "pro forma basis" gives effect to our acquisition of Insignia Financial Group, Inc. on July 23, 2003 and the related transactions and financings and the completion of the offering and the use of the net proceeds we receive, in each case as described in this prospectus under the heading "Unaudited Pro Forma Financial Information."*

**CB Richard Ellis Group, Inc.**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003, we operated in 48 countries with over 13,500 employees in 220 offices providing commercial real estate services under the "CB Richard Ellis" brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

We have a well-balanced, highly diversified base of clients that includes more than 60% of the *Fortune 100*. Many of our clients are consolidating their commercial real estate-related expenditures with fewer providers and, as a result, awarding their business to those providers that have a strong presence in important markets and the ability to provide a complete range of services worldwide. As a result of this trend and our ability to deliver comprehensive solutions for our clients' needs across a wide range of markets, we believe we are well positioned to capture a growing percentage of our clients' commercial real estate services expenditures.

**Industry Overview**

Our business covers all the various segments that compose the commercial real estate services industry, which includes leasing, sales, property management, facilities management, consulting, mortgage origination and servicing, valuation and appraisal services and investment management. Based upon our experience in these various segments and our management's ongoing internally-generated assessment of the size of the addressable market within each such segment, we believe that the U.S. commercial real estate services industry, excluding investment management, generated approximately \$22 billion in revenues during 2003.

In addition, we review on a quarterly basis various internally-generated statistics and estimates regarding both office and industrial space within the U.S. commercial real estate services industry, including the total available "stock" of rentable space and the average rent per square foot of space. Our management believes that changes in the addressable commercial rental market represented by the product of available stock and rent per square foot provide a reliable estimate of changes in the overall commercial real estate services industry because nearly all segments within the industry are affected by changes in those two measurements. We estimate that the product of available stock and rent per square foot grew at a compound annual growth rate of approximately 4.8% from 1993 through 2003.



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During the next few years, we believe the key drivers of revenue growth for the largest commercial real estate services companies will be the following:

***Outsourcing.*** Motivated by reduced costs, lower overhead, improved execution across markets, increased operational efficiency and a desire to focus on their core competencies, property owners and occupiers have increasingly contracted out for commercial real estate services, including transaction management, facilities management, project management, lease administration, property management and property accounting.

***Consolidation.*** The commercial real estate services industry remains highly fragmented, and we believe that major property owners and corporate users are motivated to consolidate their service provider relationships on a regional, national and global basis to obtain more consistent execution across markets, to achieve economies of scale and enhanced purchasing power and to benefit from streamlined management oversight and the efficiency of single point of contact service delivery.

***Institutional Ownership of Commercial Real Estate.*** Institutional owners, such as real estate investment trusts, or REITs, pension funds, foreign institutions and other financial entities, increasingly are acquiring more real estate assets and financing them in the capital markets. We believe it is likely that these owners will outsource management of their portfolios and consolidate their use of commercial real estate services vendors.

### **Our Regions of Operation and Principal Services**

We have organized our business into, and report our results of operations through, three geographically organized segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, and (3) Asia Pacific.

#### **The Americas**

The Americas is our largest segment of operations and provides a comprehensive range of services throughout the United States and in the largest metropolitan regions in Canada, Mexico and other selected parts of Latin America. Our Americas segment accounted for 73.5% of our 2003 revenue.

Within our Americas segment, we organize our services into the following business areas:

***Advisory Services.*** Our advisory services business line accounted for 59.7% of our 2003 revenue. We believe we are a market leader for the provision of sales and leasing real estate services in many U.S. metropolitan statistical areas (as defined by the U.S. Census Bureau), including New York, Philadelphia, Washington, D.C., Los Angeles, Atlanta, Chicago, Boston and Dallas.

***Real Estate Services.*** We provide strategic advice and execution assistance to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property.

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***Mortgage Loan Origination and Servicing.*** Our wholly owned subsidiary, L.J. Melody & Company, originates and services commercial mortgage loans without incurring principal risk.

***Valuation.*** We provide valuation services that include market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions.

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***Outsourcing Services.*** Our outsourcing services business line accounted for 11.2% of our 2003 revenue. As of December 31, 2003, we managed approximately 422.8 million square feet of commercial space for property owners and occupiers, which we believe represents one of the largest portfolios in the Americas.

***Asset Services.*** We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors.

***Corporate Services.*** We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios.

***Investment Management Services.*** Our investment management services business line accounted for 2.6% of our 2003 revenue. Our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., provides investment management services to clients that include pension plans, investment funds, insurance companies and other organizations seeking to generate returns and diversification through investment in real estate and sponsors funds and investment programs that span the risk/return spectrum.

## **Europe, Middle East and Africa**

Our EMEA segment has offices in 28 countries, with its largest operations located in the United Kingdom, France, Spain, The Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services similar to our Americas segment. We hold strong commercial real estate services market positions in a number of European metropolitan areas, including the leading market position in London in terms of 2003 leased square footage. The EMEA segment accounted for 19.2% of our 2003 revenue.

## **Asia Pacific**

Our Asia Pacific segment has offices in 11 countries, with our principal operations located in China (including Hong Kong), Singapore, South Korea, Japan, Australia and New Zealand. The services we provide in our Asia Pacific segment are generally similar to those provided by our Americas and EMEA segments. We believe we are one of only a few companies that can provide a full range of commercial real estate services to large corporations throughout the Asia Pacific region. The Asia Pacific segment accounted for 7.3% of our 2003 revenue.

## **Our Competitive Position**

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

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***Global Brand and Market Leading Positions.*** For nearly a century, we and our predecessors have built the CB Richard Ellis brand into the largest commercial real estate services provider in the world, based on 2003 revenue.

***Full Service Capabilities.*** We provide a full range of commercial real estate services to meet the needs of our clients, and we believe this suite of services represents a broader range globally than nearly all of our competitors.

***Strong Client Relationships and Client-tailored Service.*** We have forged long-term relationships with many of our clients. Our clients include more than 60% of the *Fortune 100*, with nearly half of these clients purchasing more than one service from us.

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***Attractive Business Model.*** Our business model features a diversified client base, recurring revenue streams, a variable cost structure, low capital requirements and strong cash flow generation.

***Strong Management Team and Workforce.*** We have recruited a talented and motivated workforce of over 13,500 employees worldwide, who are supported by a strong and deep senior management team consisting of a number of highly-respected executives, most of whom have over 20 years of broad experience in the real estate industry.

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

***Significant Leverage.*** We have significant debt service obligations and the agreements governing our long-term debt impose operating and financial restrictions on the conduct of our business.

***Geographic Concentration.*** A significant portion of our U.S. operations is concentrated in California and in the New York metropolitan area. Adverse effects on these local economies may affect us more than our competitors.

***Exposure to Risks of International Operations.*** Because a significant portion of our revenue is derived from operations outside the United States, we are exposed to exchange rate and other foreign social, political and economic risks.

***Smaller Presence in Some Markets than our Local Competitors.*** Although we have a large global presence, many of our competitors may be larger on a local or regional basis and devote more resources to these markets.

## **Our Growth Strategy**

We believe we have built an integrated, global services platform that is unparalleled in our industry. Our primary business objective is to use this platform to garner a disproportionate share of industry revenues relative to our competitors. We believe this will enable us to maximize and sustain our long-term cash flow and increase long-term stockholder value. Our strategy to achieve these business objectives consists of several elements:

***Increase Revenue from Large Clients.*** We plan to capitalize on our client management strategy for our large clients, by using relationship management teams to provide these clients with a full range of services globally while maximizing our revenue per client.

***Capitalize on Cross-selling Opportunities.*** Because we believe cross-selling represents a large growth opportunity within the commercial real estate services industry, we have dedicated substantial resources and implemented several management initiatives to better enable our workforce to capitalize on these opportunities among our various lines of business.

***Continue to Grow our Investment Management Business.*** Our growing investment management business provides us with an attractive revenue source through fees on assets under management and gains on the sale of assets.

***Focus on Best Practices to Improve Operating Efficiency.*** In 2001, we launched a best practices initiative, branded People, Platform & Performance, to achieve operating cost reductions, and we continue to strive for efficiency improvements and cost savings

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in order to maximize our operating margins and cash flow.

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We were incorporated in Delaware on February 20, 2001. Our principal executive offices are located at 865 South Figueroa Street, Suite 3400, Los Angeles, California 90017 and our telephone number is (213) 438-4880. Our website address is *www.cbre.com*. The information contained on, or accessible through, our website is not part of this prospectus.



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**The Offering**

Common stock offered by us	7,142,857 shares
Common stock offered by the selling stockholders	16,857,143 shares (or 20,457,143 shares if the underwriters exercise the over-allotment option in full)
Common stock to be outstanding after the offering	68,068,512 shares
Proposed New York Stock Exchange symbol	CBG
Use of proceeds	We estimate that our net proceeds from the offering will be \$138.7 million, based on an assumed initial public offering price of \$21.00 per share, which is the of the range set forth on the cover page of this prospectus. We intend to use these net proceeds of the offering to redeem all \$38.3 million of our outstanding 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9 <sup>3</sup> / <sub>4</sub> % senior notes due 2010, and to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.
Dividend Policy	Following the consummation of the offering, we do not expect to pay any dividends on our common stock for the foreseeable future.
Risk Factors	You should carefully read and consider the information set forth under the heading titled Risk Factors and all other information set forth in this prospectus before deciding to invest in shares of our common stock.

The number of shares shown to be outstanding after the offering is based upon 60,582,603 shares outstanding as of May 31, 2004, reflects the automatic conversion at a 1-for-1 ratio of all outstanding shares of our Class B common stock into shares of Class A common stock in connection with the completion of the offering and excludes as of such date:

6,887,698 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,620,540 shares were then exercisable;

3,129,279 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to elections made by plan participants or distributions made by us and which shares include 1,948,133 underlying stock fund units that had vested; and

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

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

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of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading titled Description of Capital Stock Warrants.

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

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

a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock on May 4, 2004, which split was effected by a stock dividend, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock on June 7, 2004; and

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

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The following table is a summary of our historical consolidated financial data as of and for the periods presented, as well as pro forma financial data giving effect to our acquisition of Insignia Financial Group, Inc., or Insignia, the related transactions and financings for such acquisition and the offering and expected use of proceeds that we receive from the offering for the periods presented. On July 20, 2001, we acquired CB Richard Ellis Services, Inc. Except as otherwise indicated below, the statement of operations data, statement of cash flow data, other data and balance sheet data for the dates and periods ended prior to July 20, 2001 are derived from the consolidated financial statements of CB Richard Ellis Services, our predecessor company. You should read this data along with the information included under the headings titled Management's Discussion and Analysis of Financial Condition and Results of Operations and Unaudited Pro Forma Financial Information and the financial statements and related notes included elsewhere in this prospectus. The pro forma statement of operations data do not purport to represent what our results of operations would have been if the Insignia acquisition, the related transactions and financings and the offering had occurred as of the date indicated or what our results will be for future periods.

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

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

(footnotes on following page)

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*(footnotes for previous page)*

- (1) The actual results for the year ended December 31, 2003 include the activities of Insignia from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (2) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (3) EPS represents (loss) earnings per share. See (loss) earnings per share information in note 16 to our audited consolidated financial statements included elsewhere in this prospectus.
- (4) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering, because our predecessor was a different legal entity.
- (5) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (6) EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

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

EBITDA is calculated as follows:

<b>Pro Forma</b>		<b>CB Richard Ellis Group</b>		<b>Predecessor Company</b>	
<b>Three Months Ended</b>	<b>Year Ended</b>	<b>Three Months Ended</b>	<b>Year Ended</b>	<b>Period From</b>	<b>Period From</b>
<b>March 31,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>December 31,</b>	<b>(inception) to</b>	<b>January 1</b>
				<b>February 20</b>	<b>From</b>
				<b>December 31,</b>	<b>to July 20,</b>

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	2004	2003	2003	2004	2003	2003	2002	2001	2001
(In thousands)									
Net (loss) income	\$ (13,862)	\$ (28,259)	\$ (23,525)	\$ (16,568)	\$ (1,347)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add:									
Depreciation and amortization	16,831	48,288	103,385	16,831	6,171	92,622	24,614	12,198	25,656
Interest expense	16,603	16,280	63,340	20,679	14,324	87,216	60,501	29,717	20,303
(Benefit) provision for income taxes	(7,180)	(22,048)	(13)	(8,550)	(1,060)	(6,276)	30,106	18,016	1,110
Less:									
Interest income	2,307	1,988	7,566	2,307	1,075	6,041	3,272	2,427	1,567
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 12,273</b>	<b>\$ 135,621</b>	<b>\$ 10,085</b>	<b>\$ 17,013</b>	<b>\$ 132,817</b>	<b>\$ 130,676</b>	<b>\$ 74,930</b>	<b>\$ 11,482</b>

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**RISK FACTORS**

*Investing in our common stock involves risks. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the related notes and the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations. The risks described below are those that we believe are the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.*

**Risks Relating to Our Business**

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

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

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

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

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

our ability to attract and retain creditworthy tenants;

the magnitude of defaults by tenants under their respective leases;



our ability to control operating expenses;

governmental regulations, local rent control or stabilization ordinances which are in, or may be put into, effect;

various uninsurable risks;

financial conditions prevailing generally and in the areas in which these properties are located;

the nature and extent of competitive properties; and

the real estate market generally.

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

We compete across a variety of business disciplines within the commercial real estate industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage banking. In general, with respect to each of our business disciplines, we cannot give assurance that we will be able to continue to compete effectively or maintain our current fee arrangements or margin levels or that we will not encounter increased competition. Each of the business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than us, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours.

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

We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2003, we generated approximately 30.2% of our revenue from operations outside the United States. Circumstances and developments related to international operations that could negatively affect our business, financial condition or results of operations include, but are not limited to, the following factors:

difficulties and costs of staffing and managing international operations;

currency restrictions, which may prevent the transfer of capital and profits to the United States;

unexpected changes in regulatory requirements;

potentially adverse tax consequences;

the responsibility of complying with multiple and potentially conflicting laws;

the impact of regional or country-specific business cycles and economic instability;

the geographic, time zone, language and cultural differences among personnel in different areas of the world;

greater difficulty in collecting accounts receivable in some geographic regions such as Asia, where many countries have underdeveloped insolvency laws and clients are often slow to pay, and in some European countries, where clients also tend to delay payments;

political instability; and

foreign ownership restrictions with respect to operations in countries such as China.

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

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

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

Our revenue from non-U.S. operations is denominated primarily in the local currency where the associated revenue was earned. During 2003, approximately 30.2% of our business was transacted in currencies of foreign countries, the majority of which included the Euro, the British Pound Sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. Thus, we may experience fluctuations in revenues and earnings because of corresponding fluctuations in foreign currency exchange rates. For example, during 2003, the U.S. dollar dropped in value against many of the currencies in which we conduct business.

We have made significant acquisitions of non-U.S. companies, and, although we currently have no specific acquisition plans, we may acquire additional foreign companies in the future. As we increase our foreign operations, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Due to the constantly changing currency exposures to which we will be subject and the volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

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

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

A significant component of our growth has occurred through acquisitions, including our acquisition of Insignia on July 23, 2003. Although we currently have no specific acquisition plans, any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. However, future acquisitions may not be available at advantageous prices or upon favorable terms and conditions. In addition, acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. Future acquisitions and any necessary related financings also may involve significant transaction-related expenses. For example, through March 31, 2004, we have incurred approximately \$175.0 million of transaction-related expenses in connection with our acquisition of Insignia in 2003.

### **Although we currently have no specific acquisition plans, if we acquire companies in the future, we may experience integration costs and the acquired business may not perform as we expect.**

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

In addition, we have several different accounting systems as a result of acquisitions we have made, including the accounting systems of Insignia. If we are unable to fully integrate the accounting and other systems of the businesses we own, we may not be able to effectively manage our acquired businesses. Moreover, the integration process itself may be disruptive to our business as it requires coordination of geographically diverse organizations and implementation of new accounting and information technology systems.

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

During 2003, approximately 23.8% of our revenue was generated from transactions originating in California and approximately 6.9% was generated from transactions originating in the greater New York metropolitan area. In addition, due to our acquisition of Insignia on July 23, 2003, we expect that the percentage of our revenue generated in the New York metropolitan area in future years will increase. As a result of the geographic concentrations in California and New York, any future economic downturn in the California or New York commercial real estate markets and in the local economies in San Diego, Los Angeles, Orange County or the greater New York metropolitan area could further harm our results of operations.

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

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

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

We are highly leveraged and have significant debt service obligations. For 2003, on a pro forma basis, our interest expense was \$63.3 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

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

we could be required to use a substantial portion, if not all, of our cash flow from operations to pay principal and interest on our debt;

our level of debt may restrict us from raising additional financing on satisfactory terms to fund working capital, strategic acquisitions, investments, joint ventures and other general corporate requirements;

our interest expense could increase if interest rates increase because the loans under our amended and restated credit agreement governing our senior secured credit facilities bear interest at floating rates;

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our substantial leverage could increase our vulnerability to general economic downturns and adverse competitive and industry conditions, placing us at a disadvantage compared to those of our competitors that are less leveraged;

our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry;

our failure to comply with the financial and other restrictive covenants in the documents governing our indebtedness, which, among others, require us to maintain specified financial ratios and limit our ability

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to incur additional debt and sell assets, could result in an event of default that, if not cured or waived, could harm our business or prospects and could result in our filing for bankruptcy; and

from time to time, Moody's Investors Service and Standard and Poor's Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% senior subordinated notes. These ratings may impact our ability to borrow under any new agreements in the future, as well as the interest rates and other terms of any such future borrowings and could also cause a decline in the market price of our common stock or changes in the interest rate for the term loan under our new amended and restated credit agreement.

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

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

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

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

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

incur or guarantee additional indebtedness;

pay dividends or make distributions on capital stock or redeem or repurchase capital stock;

repurchase equity interests;

make investments;

create restrictions on the payment of dividends or other amounts to us;



sell stock of subsidiaries;

transfer or sell assets;

create liens;

enter into transactions with affiliates;

enter into sale/leaseback transactions; and

enter into mergers or consolidations.

In addition, the amended and restated credit agreement governing our senior secured credit facilities includes other and more restrictive covenants and prohibits us from prepaying most of our other debt while debt

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

The restrictions contained in our debt instruments could:

limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and

adversely affect our ability to finance ongoing operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest.

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

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

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

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

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of December 31, 2003, we had committed \$26.6 million to fund future co-investments. We expect that approximately \$23 million of these commitments will be funded during 2004. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments. These adverse consequences could include damage to our reputation with our co-investment partners and clients, as well as the necessity of obtaining alternative funding from other sources that may be on disadvantageous terms for us and the other co-investors. Providing co-investment financing is also a very important part of CBRE Investor's investment

management business, which would suffer if we were unable to make these investments. Although our debt instruments contain restrictions that will limit our ability to provide capital to the entities holding direct or indirect interests in co-investments, we may provide this capital in many instances.

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

losses from investments;

difficulties associated with international co-investments described in Our international operations subject us to social, political and economic risks of doing business in foreign countries and Our revenue and earnings may be adversely affected by foreign currency fluctuations; and

potential lack of control over the disposition of any co-investments and the timing of the recognition of gains, losses or potential incentive participation fees.

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

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

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

Our continued success is highly dependent upon the efforts of our executive officers and other key employees, including Ray Wirta, our Chief Executive Officer; Brett White, our President; Kenneth J. Kay, our Chief Financial Officer; Alan C. Froggatt, our President, EMEA; and Robert Blain, our President, Asia Pacific. In addition, Messrs. Wirta and White currently are not parties to employment agreements with us. If any of our key employees leave and we are unable to quickly hire and integrate a qualified replacement, our business, financial condition and results of operations may suffer. In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified personnel in all areas of our business, including brokerage and property management personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

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

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

laws and regulations applicable to our business, both in the United States and in foreign countries, also may change in ways that materially increase the costs of compliance.

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

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

In addition, in our property management business, we hire and supervise third-party contractors to provide construction and engineering services for our managed properties. While our role is limited to that of a supervisor, we may be subjected to claims for construction defects or other similar actions. Adverse outcomes of property management litigation could negatively impact our business, financial condition or results of operations.

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

Immediately prior to the completion of our acquisition of Insignia on July 23, 2003, Insignia completed the sale of substantially all of its real estate investment assets to Island Fund. Under the terms of the purchase agreement, we agreed to retain some contingent liabilities related to these real estate investment assets, including approximately \$10.2 million of letters of credit support and a guarantee of an approximately \$1.3 million repayment obligation. Island Fund is obligated to reimburse us for only 50% of any future draws against these letters of credit or the repayment guarantee, and there can be no assurance that Island Fund will be able to satisfy any future requests for reimbursement.

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

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

## **Risks Relating to the Offering and Ownership of Our Common Stock**

### **The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.**

The market price of our common stock could fluctuate significantly, in which case you may not be able to resell your shares at or above the initial public offering price. Fluctuations may occur in response to the risk factors listed in this prospectus and for many other reasons, including:

our financial performance or the performance of our competitors and similar companies;

changes in estimates of our performance or recommendations by securities analysts;

failure to meet financial projections for each fiscal quarter;

technological innovations or other trends in our industry;

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the introduction of new services by us or our competitors;

the arrival or departure of key personnel;

acquisitions, strategic alliances or joint ventures involving us or our competitors; and

market conditions in our industry, the financial markets and the economy as a whole.

In addition, the stock market, in general, has historically experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may cause declines in the market price of our common stock. When the market price of a company's common stock drops significantly, stockholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

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

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

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

Our current stockholders will hold a substantial majority of our outstanding common stock after the offering. After the offering, shares owned by our current stockholders, holders of options and warrants to acquire our common stock and participants in our deferred compensation plan who have stock fund units, assuming the exercise of all options and warrants and the distribution of shares underlying all stock fund units, are expected to constitute approximately 69.3% of our total outstanding common stock. Sales of the shares in the public market, as well as shares we may issue upon the exercise of outstanding options and in connection with future distributions pursuant to stock fund units under our deferred compensation plan, could cause the market price of our common stock to decline significantly. The perception among investors that these sales may occur could produce the same effect.

Of the outstanding shares after completion of the offering, all of the 24,000,000 shares sold in the offering and 1,110,407 of our other currently outstanding shares will be freely tradable immediately without further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations under Rule 144. The remaining outstanding shares after completion of the offering will be restricted securities and generally will be available for sale in the public market as follows:



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87,498 shares will be eligible for immediate sale on the date of the prospectus because such shares may be sold pursuant to Rule 144(k);

182,069 shares will be eligible for sale at various times beginning 90 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701; and

42,688,538 shares, which are subject to lock-up agreements with the underwriters, will be eligible for sale at various times beginning 180 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701. However, the underwriters may release all or a portion of these shares subject to lock-up agreements at any time without notice.

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In addition, as of May 31, 2004, 10,016,977 shares of common stock were issuable upon the exercise of outstanding stock options or in connection with distributions pursuant to our deferred compensation plan. We intend to file a registration statement on Form S-8 under the Securities Act of 1933 shortly after the date of this prospectus to register such shares.

After the offering, stockholders beneficially owning approximately 43.0 million shares of our common stock, including shares that will be issuable upon the automatic exercise of outstanding warrants in connection with the completion of the offering, will have rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file. By exercising these registration rights and selling a large number of shares, these holders could cause the price of our common stock to decline. Furthermore, if we were to include their shares in a registration statement, those sales could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

See the information under the heading titled "Shares Eligible for Future Sale" for a more detailed description of the shares that will be available for future sales upon completion of the offering.

**For so long as affiliates of Blum Capital Partners, L.P. continue to own a significant percentage of our common stock they will have significant influence over our affairs and policies, and their interests may be different from yours.**

After the completion of the offering, affiliates of Blum Capital Partners will beneficially own approximately 42.3% of our outstanding common stock. In addition, pursuant to a securityholders' agreement, these affiliates of Blum Capital Partners, following the offering and subject to the applicable listing rules of the New York Stock Exchange, are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Also pursuant to this agreement, some of our other stockholders will be obligated to vote their shares in favor of the directors nominated by these affiliates of Blum Capital Partners. These other stockholders, collectively, will beneficially own approximately 14.1% of our outstanding common stock after completion of the offering. There are no restrictions in the securityholders' agreement on the ability of these affiliates of Blum Capital Partners to sell their shares to any third party or to assign their rights under the securityholders' agreement in connection with a sale of a majority of their shares to a third party.

For so long as these affiliates of Blum Capital Partners continue to beneficially own a significant portion of our outstanding common stock, they will continue to have significant influence over matters submitted to our stockholders for approval and to exercise significant control over our business policies and affairs, including the following:

the composition of our board of directors and, as a result, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our officers;

determinations with respect to mergers and other business combinations, including those that may result in a change of control;

sales and dispositions of our assets; and

the amount of debt financing that we incur.

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The significant ownership position of the affiliates of Blum Capital Partners could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our other stockholders. In addition, we cannot assure you that the interests of the affiliates of Blum Capital Partners will not conflict with yours. For additional information regarding the share ownership of, and our relationships with, these affiliates of Blum Capital Partners, you should read the information under the headings titled **Principal and Selling Stockholders** and **Related Party Transactions**.

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### **Delaware law and provisions of our restated certificate of incorporation and restated by-laws contain provisions that could delay, deter or prevent a change of control.**

The anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. We are currently subject to these Delaware anti-takeover provisions. Additionally, our restated certificate of incorporation and our restated by-laws contain provisions that might enable our management to resist a proposed takeover of our company. These provisions could discourage, delay or prevent a change of control of our company or an acquisition of our company at a price that our stockholders may find attractive. These provisions also may discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. The provisions include:

advance notice requirements for stockholder proposals and nominations; and

the authority of our board to issue, without stockholder approval, preferred stock with such terms as our board may determine.

For additional information regarding these provisions, you should read the information under the headings titled *Description of Capital Stock*, *Anti-Takeover Effects of Certain Provisions of our Restated Certificate of Incorporation and Restated By-Laws* and *Delaware Anti-Takeover Statute*.

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

The net tangible book value per share of our common stock, adjusted to reflect the net proceeds we receive from the offering, will be substantially below the initial public offering price. You therefore will incur immediate and substantial dilution of \$30.56 per share at an initial public offering price of \$21.00 per share, which is the mid-point of the initial offering price range per share set forth on the cover page of this prospectus. In addition, as of May 31, 2004, we had options outstanding to acquire 6,887,698 shares of our common stock with a weighted average exercise price of \$5.77 per share and stock units under our deferred compensation plan with 3,129,279 underlying shares of our common stock. To the extent these securities are exercised or otherwise issued, you will incur further dilution. As a result, if we are liquidated, you may not receive the full amount of your investment. See the information under the heading titled *Dilution* for a more complete description of the dilution you will incur.

### **A portion of the net proceeds of this offering will be received by affiliates of, and some of the selling stockholders are affiliates of, one of our underwriters. This may present a conflict of interest.**

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

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In addition, affiliates of Credit Suisse First Boston LLC are selling stockholders in the offering. As of May 31, 2004, these affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,990,790 shares, or approximately 3.3% of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling 581,996 shares (or 706,287 shares if the underwriters exercise their over-allotment option in full) in the offering, and will receive net proceeds of approximately \$11.5 million (or approximately \$13.9 million if the underwriters exercise their over-allotment option in full) at an assumed initial public offering price of \$21.00 per

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share, which is the mid-point of the range set forth on the cover page of this prospectus. After the offering, these affiliates of Credit Suisse First Boston LLC will beneficially own 2.1% of our common stock (or 1.9% if the underwriters exercise their over-allotment option in full). See the information under the heading titled "Principal and Selling Stockholders" for a more complete description of these affiliates' ownership of our common stock.

These affiliations may present a conflict of interest since Credit Suisse First Boston LLC may have an interest in the successful completion of the offering in addition to the underwriting discounts and commissions it would receive. This offering is therefore being made using a qualified independent underwriter in compliance with Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc., which is intended to address potential conflicts of interest involving underwriters. See the information under the heading "Underwriting" for a more detailed description of the independent underwriting procedures that are being used in connection with the offering.

**Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited.**

On April 23, 2002, at the recommendation of our audit committee, we dismissed Arthur Andersen LLP as our independent public accountants and engaged Deloitte & Touche LLP to serve as our independent public accountants for fiscal year 2002. Our audited consolidated financial statements for the period from February 20 (inception) to December 31, 2001 and the audited consolidated financial statements of CB Richard Ellis Services for the period from January 1, 2001 through July 20, 2001, which are included in this prospectus, have been audited by Arthur Andersen, our former independent public accountants, as set forth in their report, but Arthur Andersen has not consented to our use of their report in this prospectus.

Arthur Andersen completed its audit of our consolidated financial statements for the year ended December 31, 2001 and issued its report relating to these consolidated financial statements on February 26, 2002. Subsequently, Arthur Andersen was convicted of obstruction of justice for the activities relating to its previous work for another of its audit clients and has ceased to audit publicly-held companies. We are unable to predict the impact of this conviction or whether other adverse actions may be taken by governmental or private entities against Arthur Andersen. If Arthur Andersen has no assets available for creditors, you may not be able to recover against Arthur Andersen for any claims you may have under securities or other laws as a result of Arthur Andersen's previous role as our independent public accountants and as author of the audit report for some of the audited financial statements included in this prospectus.

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**FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. The words anticipate, believe, could, should, propose, continue, estimate, expect, intend, may, plan, predict, project, will and similar terms in this prospectus to identify forward-looking statements. The forward-looking statements in this prospectus include, but are not limited to, statements under the captions Prospectus Summary, Risk Factors, Unaudited Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business regarding our future financial condition, prospects, developments and business strategies. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements are made based on our management's expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These uncertainties and factors could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements.

The following factors are among those that may cause actual results to differ materially from the forward-looking statements:

changes in general economic and business conditions;

the failure of properties managed by us to perform as anticipated;

competition;

changes in social, political and economic conditions in the foreign countries in which we operate;

foreign currency fluctuations;

future acquisitions;

integration issues relating to acquired businesses;

an economic downturn in the California and New York real estate markets;

significant variability in our results of operations among quarters;

our substantial leverage and debt service obligations;

our ability to incur additional indebtedness;

our ability to generate a sufficient amount of cash to service our existing and future indebtedness;

the success of our co-investment and joint venture activities;

our ability to retain our senior management and attract and retain qualified and experienced employees;

our ability to comply with the laws and regulations applicable to real estate brokerage and mortgage transactions;

our exposure to liabilities in connection with real estate brokerage and property management activities;

the significant influence of our largest stockholders; and

the other factors described under the heading titled Risk Factors.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.



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**USE OF PROCEEDS**

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

The primary purposes of the offering are to create a public market for our common stock, obtain additional equity capital and facilitate future access to public markets. We expect to use our net proceeds from the offering to redeem the remaining \$38.3 million aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and to prepay \$19.9 million in aggregate principal amount of the term loan under our amended and restated credit agreement. The amended and restated credit agreement governing our senior secured credit facilities currently would limit our ability to complete such redemptions or prepayment. We have entered into an amendment to such agreement that will be effective upon the completion of the offering and, among other things, will permit such redemptions and prepayment to be completed.

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

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

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

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**DIVIDEND POLICY**

We have not declared or paid any cash dividends on any class of our common stock since our inception on February 20, 2001, and we do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance future growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors the board of directors deems relevant. In addition, our ability to declare and pay cash dividends after the offering will be restricted by the amended and restated credit agreement governing our senior secured credit facilities and the indentures relating to our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011. As a result, you will need to sell your shares of common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2004 (giving effect to a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock on May 4, 2004, which was effected by a stock dividend, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock on June 7, 2004):

on an actual basis; and

on an as adjusted basis, giving effect to:

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

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

the redemption by us of the remaining \$38.3 million aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and the prepayment of \$19.9 million in principal amount of the term loan under our amended and restated credit agreement; and

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

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

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

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

(footnotes on following page)

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*(footnotes for previous page)*

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- (1) The amount shown for our actual capitalization is net of unamortized discount of \$2.6 million associated with the issuance of our 16% senior notes due 2011.
  
- (2) As of March 31, 2004, there was \$13.3 million outstanding under our revolving credit facility and an aggregate of \$12.6 million of letters of credit drawn under our revolving credit facility, which reduces the amount we may borrow under our revolving credit facility. Borrowings of up to \$90.0 million are available at any one time for general corporate purposes under our revolving credit facility. In addition, we expect that our new amended and restated credit agreement, as will be effective following the offering, will include an incremental revolving credit facility of \$60.0 million.
  
- (3) Includes current portion of \$10.0 million due and payable on or prior to March 31, 2005. Our new amended and restated credit agreement, as will be effective following the offering, will permit us to increase the term loan by up to \$25.0 million, subject to the satisfaction of customary conditions.
  
- (4) The amount shown for our actual and as adjusted capitalization is net of unamortized discount of \$2.8 million associated with the issuance of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011. Neither amount shown reflects our purchase of \$20.1 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May 2004.
  
- (5) The number of shares of Class A common stock outstanding after the offering excludes as of March 31, 2003:  
  
6,887,698 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share;  
  
3,129,279 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to elections made by plan participants or distributions made by us; and  
  
6,928,406 additional shares available for future issuance under our 2004 stock incentive plan that we expect to adopt prior to the completion of the offering.
  
- (6) The number of shares of Class A common stock outstanding on an as adjusted basis includes 343,052 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share in connection with the offering. This number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading Description of Capital Stock Warrants.
  
- (7) The number of authorized shares of Class B common stock after the offering assumes the filing and effectiveness of an amendment and restatement of our certificate of incorporation immediately after the completion of the offering.

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

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

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

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

The following table summarizes, on a pro forma basis as of May 31, 2004, the differences between our existing stockholders and new investors with respect to the number of shares of Class A and Class B common stock issued by us, the total consideration paid and the average price per share paid before deducting underwriting discounts and commissions and our estimated offering expenses:

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

- (1) The 24,000,000 shares to be sold in the offering include 16,857,143 shares to be sold by existing stockholders. In addition, the underwriters have an option to purchase 3,600,000 additional shares from existing stockholders to cover over-allotments of shares.

As of April 30, 2004, there were an aggregate of (1) 6,887,698 shares of common stock issuable upon the exercise of outstanding options granted under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,620,540 shares were then exercisable; and (2) 3,129,279 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable

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in connection with future distributions under the plan pursuant to the elections made by participants or distributions made by us, of which stock fund units with 1,948,133 underlying shares were then vested. In connection with the completion of the offering, our 2001 stock incentive plan will terminate and our 2004 stock incentive plan will become effective, which new plan will have 6,928,406 shares reserved for future issuance pursuant to awards made under the plan.

The following table adjusts the information set forth in the table above to reflect the assumed exercise of options and the distribution of shares underlying stock fund units, in each case outstanding as of May 31, 2004, that are described in the preceding paragraph:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(In thousands)		(In thousands)		
Existing stockholders (1)	60,926	78.0%	\$ 357,226	63.2%	\$ 5.86
Option holders	6,888	8.8	39,742	7.0	5.77
Stock fund unit holders	3,129	4.0	18,056	3.2	5.77
New investors	7,143	9.2	150,000	26.6	21.00
<b>Total</b>	<b>78,085</b>	<b>100.0%</b>	<b>\$ 565,024</b>	<b>100.0%</b>	

- (1) The 24,000,000 shares to be sold in the offering include 16,857,143 shares to be sold by existing stockholders. In addition, the underwriters have an option to purchase 3,600,000 additional shares from existing stockholders to cover over-allotments of shares.

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



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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following unaudited pro forma financial information is based on the historical financial statements of CB Richard Ellis Group and Insignia included elsewhere in this prospectus. The unaudited pro forma statements of operations for the three months ended March 31, 2003 and for the year ended December 31, 2003 give effect to the following transactions as if they had occurred on January 1, 2003:

**Disposition of Real Estate Investment Assets by Insignia**

the disposition by Insignia Financial Group, Inc. to Island Fund I LLC, immediately prior to the completion of the merger described below on July 23, 2003 and for aggregate cash consideration of \$36.9 million, of Insignia's real estate investment assets, which consisted of Insignia subsidiaries and joint ventures that held (1) minority investments in office, retail, industrial, apartment and hotel properties, (2) minority investments in office development projects and a related undeveloped parcel of land, (3) wholly owned or consolidated investments in Norman, Oklahoma, New York City and the U.S. Virgin Islands and (4) investments in private equity funds that invest in mortgage-backed debt securities and other real estate-related assets;

**Insignia Acquisition and Related Transactions**

the acquisition of Insignia by our wholly owned subsidiary, CB Richard Ellis Services, Inc., which occurred pursuant to the merger of Apple Acquisition Corp., a wholly owned subsidiary of CB Richard Ellis Services, with and into Insignia on July 23, 2003;

the issuance on May 22, 2003 by CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, of \$200.0 million aggregate principal amount of 9¾% senior notes due 2010, which notes were assumed by CB Richard Ellis Services on July 23, 2003 in connection with the merger of CBRE Escrow with and into CB Richard Ellis Services on the same day;

the term loan borrowing by CB Richard Ellis Services of \$75.0 million on July 23, 2003 pursuant to our amended and restated credit agreement dated May 22, 2003; and

fees and expenses related to each of the transactions and financings described in the Insignia Acquisition and Related Transactions bullet points above; and

**The Offering**

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

the offering and the application of net proceeds of the offering, assuming the sale of 7,142,857 shares by us at an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, to (1) the redemption of the remaining \$38.3 million outstanding principal amount of our 16% senior notes due 2011, including payment of a \$3.7 million premium in connection with such redemption, (2) the redemption of \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, including payment of a \$6.8 million premium in connection with such redemption, and (3) the prepayment of \$19.9 million in principal amount of the term loan under our amended and restated credit agreement.

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

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

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

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

The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations or financial position actually would have been had the Insignia acquisition and related transactions and the offering in fact occurred on the dates specified, nor does the information purport to project our results of operations for any future period or at any future date.

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

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

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

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

The unaudited pro forma financial information should be read in conjunction with the other information contained in this prospectus under the headings titled Prospectus Summary Summary Historical and Pro Forma Financial Data, Capitalization, Selected Historical Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and the respective financial statements of CB Richard Ellis Group and Insignia and the related notes included elsewhere in this prospectus.

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

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

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

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

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

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

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

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2003

(In thousands, except share data)

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

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



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**Notes to Unaudited Pro Forma Statement of Operations**

**For the Three Months Ended March 31, 2003**

- (a) Reflects the elimination of the historical results of the real estate investment assets that were sold by Insignia to Island Fund immediately prior to the closing of the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, these dispositions were assumed to have occurred prior to January 1, 2003.
- (b) This adjustment mainly relates to the \$6.6 million estimated fair value of the broker draw asset acquired in the Insignia acquisition. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia acquisition and we will amortize it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. Accordingly, the adjustment for pro forma broker draw expense represents three months of amortization expense of the broker draw asset acquired. Additionally, the adjustment includes incremental pro forma deferred rent expense resulting from the recalculation of deferred rent expense from the Insignia acquisition, assumed to have closed on January 1, 2003 for purposes of the unaudited pro forma combined statement of operations.
- (c) Represents reversal of legal fees incurred by Insignia related to the Insignia acquisition. Per Rule 11-02 of Regulation S-X, pro forma combined statements of operations are required to disclose income (loss) from continuing operations before nonrecurring charges or credits directly attributable to the transaction. Accordingly, this adjustment removes such charges from the pro forma statement of operations.
- (d) Represents a reduction to depreciation expense as a result of fair value adjustments to property and equipment.
- (e) Represents an adjustment to amortization expense resulting from the recalculation of amortization expense relating to intangible assets acquired in the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. The largest intangible asset acquired in the Insignia acquisition relates to net revenue backlog. The net revenue backlog consists of net commissions receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia acquisition, for which Insignia recognized no revenue. The net revenue backlog is amortized as cash is received or upon final closing of these pending transactions, a large portion of which is expected to occur within twelve months after the date of the Insignia acquisition. The pro forma amortization adjustment can be summarized as follows (in thousands):

Insignia historical intangible amortization January 1 to March 31, 2003	\$ (593)
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Adjustment to CB Richard Ellis Group amortization of intangibles acquired in the Insignia acquisition:

<u>Amortization Period</u>	<u>Cost</u>	<b>Pro Forma Amortization for the Three Months Ended March 31, 2003 (Assumes 1/1/03 Acquisition Date)</b>



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Backlog	Various	\$ 72,503	\$	38,785	
Management contracts	Various	4,611		277	
Other	Various	5,808		465	
		<u>82,922</u>		<u>39,527</u>	<u>39,527</u>
Pro forma adjustment to amortization expense					<u>\$ 38,934</u>

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- (f) The increase in pro forma interest expense as a result of the Insignia acquisition is summarized as follows:

	<u>(In thousands)</u>
Interest on \$200.0 million in aggregate principal amount senior notes at 9¾% per annum	\$ 4,875
Incremental interest on \$75.0 million in additional tranche B term loan borrowings at LIBOR plus 4.25% (1)	1,051
Additional 0.50% interest rate margin on existing senior secured term loan facilities	279
Incremental amortization of deferred financing costs over the term of each respective debt instrument	749
Incremental commitment and administration fees	81
	<u>          </u>
Subtotal	7,035
Less: historical interest expense of Insignia	(1,156)
Less: historical amortization of deferred financing costs of CB Richard Ellis Group (credit facility in effect prior to Insignia acquisition)	(427)
Less: historical amortization of deferred financing costs of Insignia	(366)
	<u>          </u>
Subtotal	(1,949)
	<u>          </u>
Net increase in interest expense	<u>\$ 5,086</u>

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

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

- (i) Represents the tax effect of the pro forma adjustments included in note (h) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (j) The pro forma number of weighted average shares number gives effect to the 2,363,598 shares of Class A common stock of CB Richard Ellis Group and the 18,421,621 shares of Class B common stock of CB Richard Ellis Group issued in connection with the Insignia acquisition, as though such shares were issued on January 1, 2003. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average

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

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

	Historical		Pro Forma Adjustments			Pro Forma As Adjusted
	CB Richard Ellis Group for the Year Ended December 31, 2003	Insignia from January 1, 2003 to July 23, 2003	Disposition of Real Estate Investment Assets by Insignia (a)	Insignia Acquisition and Related Transactions	The Offering	
Revenue	\$ 1,630,074	\$ 325,600	\$ (6,847)	\$	\$	\$ 1,948,827
Costs and expenses:						
Cost of services	796,408					796,408
Operating, administrative and other	678,397					678,397
Cost and expenses - Insignia		320,319	(8,039)	3,669 (b)		315,949
Depreciation and amortization	92,622	10,148	(792)	(2,134)(c)		103,385
				3,541 (d)		
Merger-related charges	36,817	21,627	(12,832)	(8,795)(e)		36,817
	<u>1,604,244</u>	<u>352,094</u>	<u>(21,663)</u>	<u>(3,719)</u>		<u>1,930,956</u>
Operating income (loss)	25,830	(26,494)	14,816	3,719		17,871
Equity income (loss) from unconsolidated subsidiaries	14,365	(4,439)	4,439			14,365
Interest income	6,041	1,924		(399)(f)		7,566
Interest expense	87,216	6,045	(841)	196 (g)	(29,276)(i)	63,340
(Loss) income from continuing operations before (benefit) provision for income taxes	(40,980)	(35,054)	20,096	3,124	29,276	(23,538)
(Benefit) provision for income taxes	(6,276)	(12,104)	8,239	1,250 (h)	8,878 (j)	(13)
(Loss) income from continuing operations	<u>\$ (34,704)</u>	<u>\$ (22,950)</u>	<u>\$ 11,857</u>	<u>\$ 1,874</u>	<u>\$ 20,398</u>	<u>\$ (23,525)</u>
Basic and diluted loss per share from continuing operations	<u>\$ (0.68)</u>					<u>\$ (0.34)</u>
	50,918,572					69,964,474 (k)

Weighted average shares  
outstanding for basic and  
diluted loss per share

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

**Table of Contents****Notes to Unaudited Pro Forma Statement of Operations****For the Year Ended December 31, 2003**

- (a) Reflects the elimination of the historical results of the real estate investment assets that were sold by Insignia to Island Fund immediately prior to the closing of the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, these dispositions were assumed to have occurred prior to January 1, 2003.
- (b) This adjustment mainly relates to the \$6.6 million estimated fair value of the broker draw asset acquired in the Insignia acquisition. Based on management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia acquisition and we will amortize it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. Accordingly, the adjustment for pro forma broker draw expense represents twelve months of amortization expense of the broker draw asset acquired. Additionally, the adjustment includes incremental pro forma deferred rent expense resulting from the recalculation of deferred rent expense from the Insignia acquisition, assumed to have closed on January 1, 2003 for purposes of the unaudited pro forma combined statement of operations.
- (c) Represents a reduction to depreciation expense as a result of fair value adjustments to property and equipment.
- (d) Represents an adjustment to amortization expense resulting from the recalculation of amortization expense relating to intangible assets acquired in the Insignia acquisition. For purposes of the unaudited pro forma combined statement of operations, the Insignia acquisition is assumed to have occurred on January 1, 2003. The largest intangible asset acquired in the Insignia acquisition relates to net revenue backlog. The net revenue backlog consists of net commissions receivable on Insignia's revenue producing transactions, which were at various stages of completion prior to the Insignia acquisition, for which Insignia recognized no revenue. The net revenue backlog is amortized as cash is received or upon final closing of these pending transactions, a large portion of which is expected to occur within twelve months after the date of the Insignia acquisition. The pro forma amortization adjustment can be summarized as follows (in thousands):

Insignia historical intangible amortization January 1 to July 23, 2003	\$ (1,447)
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Adjustment to CB Richard Ellis Group amortization of intangibles acquired in the Insignia acquisition:

	<u>Amortization Period</u>	<u>Cost</u>	<u>Pro forma 2003 Amortization (Assumes 1/1/03 Acquisition Date)</u>	<u>Historical CB Richard Ellis Group Amortization 7/23-12/31/03</u>	<u>Pro forma Amortization Adjustment Required</u>	
Backlog	Various	\$ 72,503	\$ 62,431	\$ 59,108	\$ 3,323	
Management contracts	Various	4,611	1,115	490	625	
Other	Various	5,808	1,861	821	1,040	
<b>Total</b>		<b>82,922</b>	<b>65,407</b>	<b>60,419</b>	<b>4,988</b>	<b>4,988</b>

Pro forma adjustment to amortization expense

\$ 3,541

- (e) Per Rule 11-02 of Regulation S-X, pro forma combined statements of operations are required to disclose income (loss) from continuing operations before nonrecurring charges or credits directly attributable to the transaction. Accordingly, this adjustment removes such charges from the pro forma statement of operations. Insignia's historical merger costs primarily include the loss on the sale of the real estate investment assets to Island Fund prior to the closing of the Insignia acquisition and legal fees incurred related to the Insignia acquisition.
- (f) Represents the reversal of historical interest income earned by us on the net proceeds from the \$200.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes held in escrow from May 22, 2003

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through July 23, 2003, the date of the closing of the Insignia acquisition. The net proceeds held in escrow were released to us upon consummation of the Insignia acquisition.

- (g) The increase in pro forma interest expense as a result of the Insignia acquisition is summarized as follows:

	<u>(In thousands)</u>
Interest on \$200.0 million in aggregate principal amount senior notes at 9¾% per annum	\$ 19,500
Incremental interest on \$75.0 million in additional tranche B term loan borrowings at LIBOR plus 4.25% (1)	2,355
Additional 0.50% interest rate margin on existing senior secured term loan facilities	649
Incremental amortization of deferred financing costs over the term of each respective debt instrument	1,688
Incremental commitment and administration fees	196
<b>Subtotal</b>	<b>24,388</b>
Less: historical interest expense of CB Richard Ellis Group for \$200.0 million in aggregate principal amount of 9¾% senior notes	(11,918)
Less: historical interest expense of Insignia	(1,978)
Less: historical amortization of deferred financing costs of CB Richard Ellis Group (primarily the credit facility in effect prior to Insignia acquisition)	(7,950)
Less: historical amortization of deferred financing costs of Insignia	(2,346)
<b>Subtotal</b>	<b>(24,192)</b>
<b>Net increase in interest expense</b>	<b>\$ 196</b>

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

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

- (j)



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

- (k) The pro forma weighted average shares number gives effect to the 2,363,598 shares of Class A common stock of CB Richard Ellis Group and the 18,421,621 shares of Class B common stock of CB Richard Ellis Group issued in connection with the Insignia acquisition, as though such shares were issued on January 1, 2003. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,142,857 shares of Class A common stock that we expect to issue and sell in the offering and 343,052 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2003. The number of shares issued upon exercise of these warrants assumes an initial public offering price of \$21.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA BALANCE SHEET

As of March 31, 2004

(In thousands, except share data)

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

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

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

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

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

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

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

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

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

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

**Table of Contents****SELECTED HISTORICAL FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial information for each of the five years in the period ended December 31, 2003. On July 20, 2001, we acquired CB Richard Ellis Services, Inc. Except as otherwise indicated below, the selected historical financial data for the dates and periods ended prior to July 20, 2001 are derived from the consolidated financial statements of CB Richard Ellis Services, our predecessor company. The statement of operations data, statement of cash flow data and other data for the year ended December 31, 2003 and 2002, for the period from February 20 (inception) to December 31, 2001 and for the period from January 1 to July 20, 2001 and the balance sheet data as of December 31, 2003 and 2002 were derived from our or our predecessor's audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data, statement of cash flow data and other data for the year ended December 31, 2000 and 1999 and the balance sheet data as of December 31, 2001, 2000 and 1999 were derived from our predecessor's audited consolidated financial statements that are not included in this prospectus.

The selected financial data presented below are not necessarily indicative of results of future operations and should be read in conjunction with our consolidated financial statements and the information included under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Financial Information" included elsewhere in this prospectus.

	CB Richard Ellis Group				Predecessor Company			
	Three Months Ended March 31,		Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Year Ended December 31,	
	2004	2003	2003(1)	2002	2001(2)	2001	2000	1999
(Dollars in thousands, except share data)								
<b>Statement of Operations Data:</b>								
Revenue	\$ 440,992	\$ 263,724	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934	\$ 1,323,604	\$ 1,213,039
Operating (loss) income	(9,272)	7,779	25,830	96,736	61,178	(17,048)	100,780	71,387
Interest expense, net	18,372	13,249	81,175	57,229	27,290	18,736	39,146	37,438
Net (loss) income	(16,568)	(1,347)	(34,704)	18,727	17,426	(34,020)	33,388	23,282
EPS (3)(4):								
Basic	(0.26)	(0.03)	(0.68)	0.45	0.80	(1.60)	1.60	1.11
Diluted	(0.26)	(0.03)	(0.68)	0.44	0.79	(1.60)	1.60	1.10
Weighted average shares (4)(5):								
Basic	62,522,176	41,651,415	50,918,572	41,640,576	21,741,351	21,306,584	20,931,111	20,998,097
Diluted	62,522,176	41,651,415	50,918,572	42,185,989	21,920,915	21,306,584	21,097,240	21,072,436
<b>Statement of Cash Flow Data:</b>								
Net cash (used in) provided by operating activities	\$ (87,367)	\$ (70,761)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)	\$ 80,859	\$ 70,340
Net cash used in investing activities	(19,098)	(2,494)	(284,795)	(24,130)	(261,393)	(12,139)	(32,469)	(23,096)
Net cash (used in) provided by financing activities	(2,203)	11,756	303,664	(17,838)	213,831	126,230	(53,523)	(37,721)
<b>Other Data:</b>								
EBITDA (6)	10,085	17,013	132,817	130,676	74,930	11,482	150,484	117,369

	CB Richard Ellis Group				Predecessor Company	
	As of					
	March 31,	As of December 31,			As of December 31,	
	2004	2003	2002	2001	2000	1999
(In thousands)						
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 54,254	\$ 163,881	\$ 79,701	\$ 57,450	\$ 20,854	\$ 27,844
Total assets	1,919,735	2,213,481	1,324,876	1,354,512	963,105	929,483
Long-term debt, including current portion	801,744	802,705	509,715	517,423	289,447	348,135
Total liabilities	1,600,715	1,873,896	1,067,920	1,097,693	724,018	715,874
Total stockholders' equity	312,160	332,929	251,341	252,523	235,339	209,737

(footnotes on following page)



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*(footnotes for previous page)*

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

- (1) The actual results for the year ended December 31, 2003 include the activities of Insignia from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (2) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (3) EPS represents (loss) earnings per share. See (loss) earnings per share information in note 16 to our audited consolidated financial statements, included elsewhere in this prospectus.
- (4) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering, because our predecessor was a different legal entity.
- (5) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (6) EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

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

EBITDA is calculated as follows:

**CB Richard Ellis Group**

**Predecessor Company**

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	Three Months Ended March 31,		Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,	Year Ended December 31,	
	2004	2003	2003	2002	2001	2001	2000	1999
(In thousands)								
Net (loss) income	\$ (16,568)	\$ (1,347)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)	\$ 33,388	\$ 23,282
Add:								
Depreciation and amortization	16,831	6,171	92,622	24,614	12,198	25,656	43,199	40,470
Interest expense	20,679	14,324	87,216	60,501	29,717	20,303	41,700	39,368
(Benefit) provision for income taxes	(8,550)	(1,060)	(6,276)	30,106	18,016	1,110	34,751	16,179
Less:								
Interest income	2,307	1,075	6,041	3,272	2,427	1,567	2,554	1,930
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 17,013</b>	<b>\$ 132,817</b>	<b>\$ 130,676</b>	<b>\$ 74,930</b>	<b>\$ 11,482</b>	<b>\$ 150,484</b>	<b>\$ 117,369</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the risks described under the heading "Risk Factors" and elsewhere in this prospectus. You should read the following discussion in conjunction with the information included under the headings titled "Unaudited Pro Forma Financial Information" and "Selected Historical Financial Data" and the financial statements and related notes included elsewhere in this prospectus.*

**Overview**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003, we operated in 48 countries with over 13,500 employees in 220 offices providing commercial real estate services under the "CB Richard Ellis" brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

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

***Macroeconomic Conditions***

Our operations are directly affected by actual and perceived trends in various national and economic conditions that affect global and regional markets for commercial real estate services, including interest rates, the availability of credit to finance commercial real estate transactions and the impact of tax laws affecting real estate. Periods of economic slowdown or recession, rising interest rates, a declining demand for real estate or the public perception that any of these events may occur, can harm many of our business lines. These economic conditions could result in a general decline in rents, which in turn would reduce revenue from property management fees and brokerage commissions derived from property sales and leases. In addition, these conditions could lead to a decline in sales prices as well as a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage banking business. If our brokerage and mortgage banking businesses are negatively impacted, it is likely that our other lines of business would also suffer due to the relationship among our various business lines.

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



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Our management team primarily addresses adverse changes in economic conditions through our compensation structure. Compensation is one of our largest expenses, and the sales and leasing professionals in our largest line of business, advisory services, generally are paid on a commission and bonus basis that correlates with our revenue performance. As a result, the negative effect on our operating margins during difficult market conditions is partially mitigated. In addition, in circumstances when economic conditions are particularly severe, our management also has sought to improve operational performance through cost reduction programs. For example, as economic conditions worsened in 2001, our management team made targeted reductions in our workforce, reduced senior management bonuses, streamlined general and administrative operations and cut capital expenditures and other discretionary operating expenses. After our acquisition of CB Richard Ellis Services in 2001, our management also instituted a best practices program branded People, Platform & Performance in order to implement and encourage new business practices that would result in lower operating expenses and enhance revenue and margin growth. We believe this program significantly contributed to the \$18.7 million reduction in our operating expenses during 2002 as compared to 2001. Notwithstanding these approaches, adverse global and regional economic changes remain one of the most significant risks to our future financial condition and results of operations.

### ***Effects of Prior Acquisitions***

Although we do not currently have any specific acquisition plans, our management historically has made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. For example, we enhanced our mortgage banking services through our 1996 acquisition of L.J. Melody & Company and we significantly increased the scale of our investment management business through our 1995 acquisition of Westmark Realty Advisors and our 1997 acquisition of Koll Real Estate Services. An example of a strategic acquisition that increased our geographic coverage was our 1998 acquisition of Hillier Parker May & Rowden in the United Kingdom. Our largest acquisition to date was our July 23, 2003 acquisition of Insignia Financial Group, which not only significantly increased the scale of our real estate services and outsourcing services business lines in the Americas segment but also significantly increased our presence in the New York, London and Paris metropolitan areas.

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenses and charges and the costs of integrating the acquired business and its financial and accounting systems into our own. For example, through March 31, 2004, we have incurred approximately \$175.0 million of transaction-related expenses in connection with our acquisition of Insignia in 2003 and approximately \$87.6 million of transaction-related expenses in connection with our acquisition of CB Richard Ellis Services in 2001. Transaction-related expenses include severance costs, lease termination costs, transaction costs, deferred financing costs and merger-related costs, among others. In addition, through March 31, 2004, we have incurred approximately \$19.0 million of costs in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own.

### ***International Operations***

We have made significant acquisitions of non-U.S. companies and, although we currently have no specific plans to do so, we may acquire additional foreign companies in the future. As we increase our foreign operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our management team generally seeks to mitigate our exposure by balancing assets and liabilities that are denominated in the same currency and by maintaining cash positions outside the United States only at levels necessary for operating purposes. In addition, from time to time we enter into foreign currency exchange contracts to mitigate our exposure to exchange rate changes related to particular transactions.



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Our management historically has not generally entered into agreements to hedge the risks associated with the translation of foreign currencies into U.S. dollars. On April 6, 2004, we entered into an option agreement to purchase an aggregate notional amount of 8.7 million British pounds sterling, which matures on December 29, 2004. The net impact on our earnings resulting from unrealized gains and/or losses on this option agreement is not expected to be material. Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, our management cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

Our international operations also are subject to, among other things, political instability and changing regulatory environments, which may adversely affect our future financial condition and results of operations.

Our management routinely monitors these risks and costs and evaluates the appropriate amount of resources to allocate towards business activities in foreign countries where such risks and costs are particularly significant. For example, in late 2001 and early 2002 we decided to sell our wholly owned operations in Thailand, the Philippines and India. These operations had highly cyclical financial performance due to continuing economic and political instability in the region. By selling the operations and entering into cross-referral and royalty agreements with the purchasers, we were able to maintain our presence, brand and service capability in those countries while generally eliminating our financial risk. However, these measures have only mitigated our overall exposure to the risks associated with operating outside the United States.

## ***Leverage***

We are highly leveraged and have significant debt service obligations. Although our management believes that the incurrence of this long-term indebtedness has been important in the development of our business, including facilitating our acquisition of Insignia Financial Group in 2003, the cash flow necessary to service this debt is not available for other general corporate purposes, which may limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry. Our management seeks to mitigate this exposure both through the refinancing of debt when available on attractive terms and through selective repayment and retirement of indebtedness. For example, we refinanced our senior secured credit facilities in October 2003 to obtain more attractive interest rates and other terms, redeemed \$30.0 million in aggregate principal amount of our 16% senior notes in late 2003 and repurchased \$20.1 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market during May 2004. In addition, we expect to use the net proceeds we receive from the offering to redeem all \$38.3 million in aggregate principal amount of the remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9 3/4% senior notes due 2010 and to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. Notwithstanding such activities, our level of indebtedness and the operating and financial restrictions in our debt agreements both place significant constraints on the operation of our business.

## **Basis of Presentation**

### ***Recent Significant Acquisitions and Dispositions***

On July 20, 2001, we acquired CB Richard Ellis Services, Inc. pursuant to an amended and restated agreement and plan of merger, dated as of May 31, 2001, among CB Richard Ellis Group (formerly known as CBRE Holding, Inc.), CB Richard Ellis Services and Blum CB Corp., a wholly owned subsidiary of CB Richard Ellis Group. Blum CB was merged with and into CB Richard Ellis Services, with CB Richard Ellis Services being the surviving corporation. At the effective time of such merger, CB Richard Ellis Services became a wholly owned subsidiary of CB Richard Ellis Group.

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Our results of operations, including our segment operations and cash flows, for the year ended December 31, 2001 have been derived by combining the results of operations and cash flows of CB Richard Ellis Group for the period from February 20 (inception) to December 31, 2001 with the results of operations and cash flows of



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CB Richard Ellis Services, our predecessor, from January 1, 2001 to July 20, 2001, the date of the merger. The results of operations and cash flows of our predecessor prior to the merger incorporated in the following discussion are the historical results and cash flows of our predecessor. These results of our predecessor do not reflect any purchase accounting adjustments, which are included in our results subsequent to the merger. Due to the effects of purchase accounting applied as a result of the merger and the additional interest expense associated with the debt incurred to finance the merger, our results of operations may not be comparable in all respects to the results of operations for our predecessor prior to the merger. However, our management believes a discussion of our 2001 operations is more meaningful by combining our results with the results of our predecessor.

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

## ***Segment Reporting***

We report our operations through three geographically organized segments: (1) the Americas, (2) Europe, the Middle East and Africa, or EMEA, and (3) Asia Pacific. The Americas consists of operations located in the United States, Canada, Mexico and South America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand.

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

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

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

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

	<b>Year Ended December 31,</b>					
	<b>2003</b>		<b>2002</b>		<b>2001</b>	
	<b>(Dollars in thousands)</b>					
Revenue	\$ 1,630,074	100.0%	\$ 1,170,277	100.0%	\$ 1,170,762	100.0%
Costs and expenses:						
Cost of services	796,408	48.8	547,093	46.7	542,804	46.4
Operating, administrative and other	678,397	41.6	501,798	42.9	517,405	44.2
Depreciation and amortization	92,622	5.7	24,614	2.1	37,854	3.2
Merger-related and other nonrecurring charges	36,817	2.3	36		28,569	2.5
Operating income	25,830	1.6	96,736	8.3	44,130	3.8
Equity income from unconsolidated subsidiaries	14,365	0.9	9,326	0.8	4,428	0.4
Interest income	6,041	0.4	3,272	0.3	3,994	0.4
Interest expense	87,216	5.4	60,501	5.2	50,020	4.3

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(Loss) income before (benefit) provision for income taxes	(40,980)	(2.5)	48,833	4.2	2,532	0.2
(Benefit) provision for income taxes	(6,276)	(0.4)	30,106	2.6	19,126	1.6
Net (loss) income	<u>\$ (34,704)</u>	<u>(2.1)%</u>	<u>\$ 18,727</u>	<u>1.6%</u>	<u>\$ (16,594)</u>	<u>(1.4)%</u>
EBITDA	<u>\$ 132,817</u>	<u>8.1%</u>	<u>\$ 130,676</u>	<u>11.2%</u>	<u>\$ 86,412</u>	<u>7.4%</u>

EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes

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

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

EBITDA is calculated as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>	
Net loss	\$ (16,568)	\$ (1,347)
Add:		
Depreciation and amortization	16,831	6,171
Interest expense	20,679	14,324
Benefit for income taxes	(8,550)	(1,060)
Less:		
Interest income	2,307	1,075
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 17,013</b>

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>		
Net (loss) income	\$ (34,704)	\$ 18,727	\$ (16,594)
Add:			
Depreciation and amortization	92,622	24,614	37,854
Interest expense	87,216	60,501	50,020
(Benefit) provision for income taxes	(6,276)	30,106	19,126
Less:			
Interest income	6,041	3,272	3,994

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

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

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

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

Our cost of services on a consolidated basis increased by \$100.6 million, or 81.4%, as compared to the three months ended March 31, 2003. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by our acquisition of Insignia, which resulted in higher payroll-related costs, including bonus accruals, insurance and benefits, producer retention and broker draw amortization. We paid bonuses to the top advisory services professionals of Insignia that we retained in the acquisition. The producer retention expense represents that amortization of these bonuses, which are being amortized to cost of services over the lives of the related employment agreements. As part of our refinement of the purchase price allocation for the Insignia acquisition during the three months ended March 31, 2004, we assigned a \$6.6 million fair value to a broker draw asset acquired in the Insignia acquisition. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia acquisition and we will amortize it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. During the three months ended March 31, 2004, we have recorded a \$2.2 million adjustment for the amortization of this broker draw asset, which includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia acquisition through December 31, 2003. The producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$3.6 million for the three months ended March 31, 2004. The increase was also due to the overall increase in worldwide sales and lease transaction revenue, as well as foreign currency translation, which had an \$8.0 million negative impact on cost of services during the three months ended March 31, 2004. Cost of services as a percentage of revenue increased from 46.9% in the first quarter of 2003 to 50.8% in the first quarter of 2004 primarily as a result of the producer retention and broker draw amortization recorded in 2004 as well as the new mix of compensation structures as a result of compensation plans adopted in the Insignia acquisition within our Americas segment. However, we expect that the full year 2004 cost of services percentage of revenue will be more comparable to the full year 2003 cost of services percentage of revenue.

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

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

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

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

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

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

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

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

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

Our cost of services on a consolidated basis totaled \$796.4 million, an increase of \$249.3 million, or 45.6%, from the year ended December 31, 2002. This increase was mainly due to higher commission expense, bonus accruals and producer retention expense as a result of the Insignia acquisition as well as increased worldwide sales and lease transaction revenue. Our sales and leasing professionals are paid on a commission and bonus basis, which generally correlates with our revenue performance. Accordingly, as revenue increases, cost of services will also increase. Additionally, we paid bonuses to the top advisory services professionals of Insignia that we retained in the acquisition. The producer retention expense represents the amortization of these bonuses, which are being amortized to cost of services over the lives of the related employment agreements. The producer retention expense is considered an integration cost associated with the Insignia acquisition and amounted to \$2.7 million for the year ended December 31, 2003. Also contributing to the increase in cost of services over the prior year was increased worldwide payroll related costs, including worldwide insurance and pension expense in the United Kingdom, which were mainly driven by increased headcount resulting from the Insignia acquisition. Finally, foreign currency translation had a \$23.9 million negative impact on cost of services during the year ended December 31, 2003.

Our operating, administrative and other expenses on a consolidated basis were \$678.4 million, an increase of \$176.6 million, or 35.2 %, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by higher costs as a result of the Insignia acquisition, including \$10.9 million of integration costs, as well as increased worldwide bonuses and payroll-related expenses, principally in



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the Americas and Europe. Included in the 2003 bonus amount was an accrual for a one-time performance award of approximately \$6.9 million. We expect to pay higher bonuses in 2004 as we will incur a nonrecurring charge of \$15.0 million for compensation expenses relating to bonus payments triggered by the offering, which are payable to several of our non-executive real estate services employees as a result of provisions in such employees' employment agreements. Also contributing to the variance was a legal settlement in the United States in 2003 as well as higher occupancy expense in the United Kingdom as a result of our relocation to a new facility in 2003. Lastly, foreign currency translation had a \$23.4 million negative impact on total operating expenses during the year ended December 31, 2003. These increases were partially offset by net foreign currency transaction gains resulting from the weaker U.S. dollar. Over 2003 and 2002, the U.S. dollar has continued to weaken, which has resulted in us recognizing foreign currency transaction gains. Due to the volatility of currency exchange rates, there is no way for us to predict if this trend will continue in the future.

Our depreciation and amortization expense on a consolidated basis increased by \$68.0 million, or 276.3%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 mainly due to \$59.1 million of amortization of the net revenue backlog acquired as part of the Insignia acquisition. As of December 31, 2003, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Insignia acquisition was \$13.4 million, which is expected to be fully amortized by the end of 2004 (see note 8 of our audited consolidated financial statement included elsewhere in this prospectus). The increase over the prior year was also due to a one-time reduction of amortization expense recorded in 2002 related to the adjustment of certain intangible assets to their estimated fair values as of their acquisition date in connection with our acquisition of CB Richard Ellis Services in 2001.

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

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

Our consolidated interest expense was \$87.2 million for the year ended December 31, 2003, an increase of \$26.7 million, or 44.2%, as compared to the year ended December 31, 2002. This increase was primarily driven by a one-time \$6.8 million write-off of unamortized deferred financing fees associated with our prior credit facility and \$6.6 million of nonrecurring write-offs of unamortized deferred financing fees and unamortized discount, as well as premiums paid, in connection with the \$30.0 million of redemptions of our 16% senior notes in the fourth quarter of 2003. Additionally, interest expense was higher in 2003 as a result of the new debt incurred in connection with the Insignia acquisition.

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

### ***Year Ended December 31, 2002 Compared to Year Ended December 31, 2001***

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We reported consolidated net income of \$18.7 million for the year ended December 31, 2002 on revenue of \$1.2 billion as compared to a consolidated net loss of \$16.6 million on revenue of \$1.2 billion for the year ended December 31, 2001.

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Our revenue on a consolidated basis for the year ended December 31, 2002 was comparable to the year ended December 31, 2001. Overall revenue decreased in our Americas segment primarily caused by declines in lease transaction revenue, which were driven by the continued softness in the leasing industry in the United States as a result of general economic uncertainty, combined with a nonrecurring sale of mortgage fund contracts of \$5.6 million in 2001. In Asia Pacific, revenue declined mainly due to the sale of our wholly-owned operations in Thailand, the Philippines and India. These decreases were mostly offset by higher worldwide sales transaction revenue driven by investment property sales and higher investment management fees in Japan as result of the expansion of this business in that region. Foreign currency translation had a \$10.5 million positive impact on total revenue during the year ended December 31, 2002.

Our cost of services on a consolidated basis totaled \$547.1 million for the year ended December 31, 2002, an increase of \$4.3 million, or 0.8%, from the year ended December 31, 2001. This increase was primarily due to higher compensation of advisory services professionals within our international operations associated with expanded international activities. These increases were partially offset by lower variable commissions, principally in our Americas segment, driven by lower lease transaction revenue. Foreign currency translation had a \$4.2 million negative impact on cost of services during the year ended December 31, 2002.

Our operating, administrative and other expenses on a consolidated basis were \$501.8 million for the year ended December 31, 2002, a decrease of \$15.6 million, or 3.0%, as compared to the year ended December 31, 2001. This decrease was primarily driven by cost reduction measures and operational efficiencies from programs initiated in May 2001, as well as foreign currency transaction and settlement gains resulting from the weaker U.S. dollar. The trend of foreign currency transaction gains resulting from the weakening of the U.S. dollar has continued in 2003. These reductions were partially offset by an increase in bonuses and other incentives, primarily within our international operations, due to improved results. Foreign currency translation also had a \$4.1 million negative impact on total operating expenses during the year ended December 31, 2002.

Our depreciation and amortization expense on a consolidated basis decreased by \$13.2 million, or 35.0%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001 was mainly due to the discontinuation of goodwill amortization after our acquisition of CB Richard Ellis Services in 2001 in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, or SFAS No. 142, and lower depreciation expense, principally due to lower capital expenditures for the year ended December 31, 2002. The lower capital expenditures resulted from cost reduction measures initiated in 2001. Our capital expenditures increased in 2003 primarily as a result of our planned relocation to a new facility in the United Kingdom in 2003. The year ended December 31, 2002 also included a one-time reduction of amortization expense of \$2.0 million arising from the adjustment of certain intangible assets to their estimated fair values as of July 20, 2001, the date we acquired CB Richard Ellis Services.

Our equity income from unconsolidated subsidiaries increased by \$4.9 million, or 110.6%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, primarily due to a \$2.2 million nonrecurring disposition fee received upon liquidation of one of our joint ventures in the United States in the normal course of business, upon completion of the investment strategy set forth in its joint venture agreement, as well as the improved performance from several of our other domestic joint ventures. Earnings from these domestic joint ventures continued to increase during 2003 as general economic conditions improved in the United States.

Our merger-related and other nonrecurring charges on a consolidated basis were \$28.6 million for the year ended December 31, 2001. These costs primarily consisted of merger-related charges of \$18.3 million, the write-off of assets, primarily e-business investments, of \$7.2 million as well as severance costs of \$3.1 million related to our cost reduction program initiated in May 2001.

Our consolidated interest expense was \$60.5 million, an increase of \$10.5 million, or 21.0%, over the year ended December 31, 2001. This was primarily attributable to our change in debt structure in connection with our acquisition of CB Richard Ellis Services in 2001.



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Our income tax expense on a consolidated basis was \$30.1 million for the year ended December 31, 2002 as compared to \$19.1 million for the year ended December 31, 2001. The income tax provision and effective tax rate were not comparable between periods due to effects of our acquisition of CB Richard Ellis Services in 2001 and the adoption of SFAS No. 142, which resulted in the elimination of the amortization of goodwill. In addition, non-deductible losses associated with our deferred compensation plan contributed to an increased effective tax rate.

**Segment Operations**

The following tables summarize our revenue, costs and expenses and operating income (loss) by our Americas, EMEA and Asia Pacific operating segments for the three months ended March 31, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001. Our Americas results for the three months ended March 31, 2004 include merger-related charges of \$7.6 million attributable to the Insignia acquisition. Our Americas 2003 results include merger-related charges of \$20.4 million attributable to the acquisition of Insignia. Our Americas 2001 results include a nonrecurring sale of mortgage fund contracts of \$5.6 million, as well as merger-related and other nonrecurring charges of \$26.9 million attributable to our acquisition of CB Richard Ellis Services. Our EMEA results for the three months ended March 31, 2004 include merger-related charges of \$2.3 million attributable to the Insignia acquisition. Our EMEA 2003 results include merger-related charges of \$16.0 million attributable to the Insignia acquisition. Our Asia Pacific 2001 results include merger-related and other nonrecurring charges of \$1.2 million attributable to the acquisition of CB Richard Ellis Services.

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

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Revenue	\$ 28,444	100.0%	\$ 18,296	100.0%
Costs and expenses:				
Cost of services	14,101	49.6	9,043	49.4
Operating, administrative and other	13,019	45.8	11,320	61.9
Depreciation and amortization	816	2.8	736	4.0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating income (loss)	\$ 508	1.8%	\$ (2,803)	(15.3)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
EBITDA	\$ 1,608	5.7%	\$ (2,104)	(11.5)%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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	Year Ended December 31,					
	2003		2002		2001	
	(Dollars in thousands)					
<b>The Americas</b>						
Revenue	\$ 1,197,626	100.0%	\$ 896,064	100.0%	\$ 928,799	100.0%
Costs and expenses:						
Cost of services	609,619	50.9	438,842	49.0	448,813	48.3
Operating, administrative and other	474,317	39.6	367,360	41.0	388,645	41.8
Depreciation and amortization	58,216	4.9	16,958	1.9	27,452	3.0
Merger-related and other nonrecurring charges	20,367	1.7	36		26,923	2.9
Operating income	\$ 35,107	2.9%	\$ 72,868	8.1%	\$ 36,996	4.0%
EBITDA	\$ 107,503	9.0%	\$ 98,251	11.0%	\$ 68,226	7.3%
<b>EMEA</b>						
Revenue	\$ 313,686	100.0%	\$ 182,222	100.0%	\$ 161,306	100.0%
Costs and expenses:						
Cost of services	135,854	43.3	70,309	38.6	60,309	37.4
Operating, administrative and other	151,077	48.1	90,047	49.4	84,762	52.5
Depreciation and amortization	31,287	10.0	4,579	2.5	6,492	4.0
Merger-related and other nonrecurring charges	15,958	5.1			451	0.3
Operating (loss) income	\$ (20,490)	(6.5)%	\$ 17,287	9.5%	\$ 9,292	5.8%
EBITDA	\$ 10,609	3.4%	\$ 21,948	12.0%	\$ 15,786	9.8%
<b>Asia Pacific</b>						
Revenue	\$ 118,762	100.0%	\$ 91,991	100.0%	\$ 80,657	100.0%
Costs and expenses:						
Cost of services	50,935	42.9	37,942	41.2	33,682	41.7
Operating, administrative and other	53,003	44.6	44,391	48.3	43,998	54.5
Depreciation and amortization	3,119	2.6	3,077	3.3	3,910	4.9
Merger-related and other nonrecurring charges	492	0.4			1,195	1.5
Operating income (loss)	\$ 11,213	9.4%	\$ 6,581	7.2%	\$ (2,128)	(2.6)%
EBITDA	\$ 14,705	12.4%	\$ 10,477	11.4%	\$ 2,400	3.0%

EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

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



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

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

	Year Ended December 31,		
	2003	2002	2001
(In thousands)			
<b>The Americas</b>			
Operating income	\$ 35,107	\$ 72,868	\$ 36,966
Add:			
Depreciation and amortization	58,216	16,958	27,452
Equity income from unconsolidated subsidiaries	14,180	8,425	3,808
<b>EBITDA</b>	<b>\$ 107,503</b>	<b>\$ 98,251</b>	<b>\$ 68,226</b>
<b>EMEA</b>			
Operating (loss) income	\$ (20,490)	\$ 17,287	\$ 9,292

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Add:			
Depreciation and amortization	31,287	4,579	6,492
Equity (loss) income from unconsolidated subsidiaries	(188)	82	2
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EBITDA</b>	<b>\$ 10,609</b>	<b>\$ 21,948</b>	<b>\$ 15,786</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Asia Pacific</b>			
Operating income (loss)	\$ 11,213	\$ 6,581	\$ (2,128)
Add:			
Depreciation and amortization	3,119	3,077	3,910
Equity income from unconsolidated subsidiaries	373	819	618
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EBITDA</b>	<b>\$ 14,705</b>	<b>\$ 10,477</b>	<b>\$ 2,400</b>
	<u>          </u>	<u>          </u>	<u>          </u>

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Revenue increased by \$127.2 million, or 63.6%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003 primarily driven by the expansion of our market share in our real estate services business line through our acquisition of Insignia, particularly in leasing activity in the New York area. Additionally, the continued improvement of general economic conditions in the United States led to an increase in the volume of commercial real estate transactions resulting in higher sales transaction revenue as well as increased lease transaction revenue and management fees. Cost of services increased by \$78.9 million, or 83.1%, for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003 primarily due to higher commission expense, bonus accruals, insurance and benefits, producer retention and broker draw amortization as a result of the Insignia acquisition as well as the higher sales and lease transaction revenue. The producer retention expense, which represents amounts paid to the top advisory services professionals of Insignia that we retained at the time of the acquisition, is being amortized through cost of services over the respective lives of their underlying employment agreements. The broker draw amortization of \$2.2 million includes a \$1.4 million adjustment to correct the amortization taken for the period from the date of the Insignia acquisition through December 31, 2003. It also reflects the pattern in which the economic benefits of the broker draw asset acquired in the Insignia acquisition are consumed, the fair value of which was refined during the three months ended March 31, 2004. The remaining net broker draw asset of \$4.4 million will be amortized on a straight-line basis over the next sixteen months. Both the producer retention and the broker draw amortization are considered integration costs associated with the Insignia acquisition and together amounted to \$3.0 million for the three months ended March 31, 2004. Cost of services as a percentage of revenue increased from 47.5% in the first quarter of 2003 to 53.1% in the first quarter of 2004, primarily as a result of the producer retention and broker draw amortization recorded in 2004 as well as the new mix of compensation structures as a result of compensation plans adopted in the Insignia acquisition. However, we expect that the full year 2004 cost of services percentage of revenue for our Americas segment will be more comparable to the full year 2003 cost of services percentage of revenue. Operating, administrative and other expenses increased \$46.0 million, or 51.6%, mainly caused by higher costs as a result of the Insignia acquisition, including integration expenses of \$1.8 million, as well as increased bonuses and insurance and benefits costs. Additionally, lower net foreign currency transaction gains reduced the positive offset to total operating expenses versus the prior year.

*EMEA*

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

*Asia Pacific*

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

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

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002******The Americas***

Revenue increased by \$301.6 million, or 33.7%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily driven by the expansion of our market share in our real estate services business line through our acquisition of Insignia, particularly in the leasing industry in the New York area. Additionally, the improvement of general economic conditions in the United States led to an increase in volume of transactions resulting in significantly higher sales transaction revenue as well as increased lease transaction revenue and appraisal fees. Cost of services increased by \$170.8 million, or 38.9%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002 primarily due to higher commission expense, bonus accruals and producer retention expense as a result of the Insignia acquisition as well as the higher sales and lease transaction revenue. The producer retention expense represents bonuses paid to the top advisory services professionals of Insignia that we retained at the time of the acquisition that is being amortized through cost of services over the respective lives of the underlying employment agreements. The producer retention expense is considered an integration cost associated with the Insignia acquisition and amounted to \$1.5 million for the year ended December 31, 2003. Operating, administrative and other expenses increased \$107.0 million, or 29.1%, mainly caused by higher costs as a result of the Insignia acquisition, including integration expenses of \$9.1 million, increased bonuses and payroll related costs mainly resulting from improved operating performance, and a nonrecurring legal settlement in the United States. Included in the 2003 bonus was an accrual for a one-time performance award of approximately \$6.9 million. These increases were partially offset by net foreign currency transaction gains resulting from the weakened U.S. dollar, a trend that we have experienced in 2003 and 2002.

***EMEA***

Revenue increased by \$131.5 million, or 72.1%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002, primarily driven by increased revenue as a result of the Insignia acquisition as evidenced by higher sales and lease transaction revenue as well as increased consultation and appraisal fees, predominantly in the United Kingdom and France. Foreign currency translation had a \$35.5 million positive impact on total revenue during the year ended December 31, 2003. Cost of services increased \$65.5 million, or 93.2%, as a result of higher producer compensation expense and bonuses as well as increased payroll-related costs, including insurance expense throughout Europe and pension expense in the United Kingdom, primarily due to the Insignia acquisition. Also included in producer compensation expense for 2003 were integration costs of \$1.2 million, representing the amortization of bonuses paid to the top producers of Insignia in the United Kingdom, which is being amortized over the respective lives of the underlying employment agreements. Foreign currency translation had a \$15.0 million negative impact on cost of services during the current year. Operating, administrative and other expenses increased by \$61.0 million, or 67.8%, mainly driven by increased costs as a result of the Insignia acquisition, including integration expenses of \$1.8 million, as well as higher bonus, payroll related and consulting expenses. Additionally, occupancy expense was higher in the United Kingdom as a result of our relocation to a new facility. Lastly, foreign currency translation had a \$16.4 million negative impact on total operating expenses during the year ended December 31, 2003.



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### *Asia Pacific*

Revenue increased by \$26.8 million, or 29.1%, for the year ended December 31, 2003 as compared to the year ended December 31, 2002. The increase was primarily driven by an overall increase in revenue in Australia and New Zealand, primarily resulting from our incremental efforts to increase our market share in the region as well as due to our organic growth. Foreign currency translation had a \$13.8 million positive impact on total revenue during the current year. Cost of services increased by \$13.0 million, or 34.2%, mainly attributable to increased transaction revenue as well as higher producer compensation expense due to increased headcount in Australia and New Zealand resulting from our incremental efforts to increase our market share in this region. Foreign currency translation had a \$6.1 million negative impact on cost of services for the year ended December 31, 2003. Operating, administrative and other expenses increased by \$8.6 million, or 19.4%, primarily due to an increased accrual for long-term incentives as well as higher payroll related costs in Australia and New Zealand. The long-term incentive plan term ended in 2003 with payout of approximately \$7.8 million anticipated in early 2004. We anticipate implementing a new long-term incentive plan starting in 2004. Foreign currency translation also had a \$5.6 million negative impact on total operating expenses during the year ended December 31, 2003.

### ***Year Ended December 31, 2002 Compared to Year Ended December 31, 2001***

### *The Americas*

Revenue decreased by \$32.7 million, or 3.5%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, primarily driven by a lower average value per transaction in lease transaction revenue resulting from the continued softness in the leasing industry in the United States combined with a nonrecurring sale of mortgage fund contracts of \$5.6 million in 2001. These decreases were partially offset by higher sales transaction revenue, which was driven by a higher number of transactions as well as a higher average value per transaction, primarily due to investment property sales. The improvement in sales transaction revenue continued in 2003. Cost of services decreased by \$10.0 million, or 2.2%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, caused primarily by lower variable commissions commensurate with lower lease transaction revenue. Operating, administrative and other expenses decreased by \$21.3 million, or 5.5%, as a result of cost reduction and efficiency measures, the organizational restructuring implemented after our acquisition of CB Richard Ellis Services in 2001, and foreign currency transaction and settlement gains resulting from the weaker U.S. dollar. The trend of foreign currency transaction gains resulting from the weakening U.S. dollar continued throughout 2003.

### *EMEA*

Revenue increased by \$20.9 million, or 13.0%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This was mainly driven by higher sales transaction revenue across Europe as the general economy in this region improved. Foreign currency translation had an \$8.9 million positive impact on total revenue during the year ended December 31, 2002. Cost of services increased by \$10.0 million, or 16.6%, due to higher producer compensation as a result of increased revenue arising from expanded activities in Europe. Foreign currency translation had a \$3.4 million negative impact on cost of services during the year ended December 31, 2002. Operating, administrative and other expenses increased by \$5.3 million, or 6.2%, mainly attributable to higher incentives due to improved results, higher occupancy costs and consulting fees. Foreign currency translation also had a \$3.7 million negative impact on total operating expenses during the year ended December 31, 2002.

### *Asia Pacific*

Revenue increased by \$11.3 million, or 14.1%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This increase was primarily driven by higher investment management fees in Japan and an increase in overall revenue in Australia and New Zealand due to increased efforts to expand our market share in these locations, partially offset by lower revenues as a result of the sale of our wholly owned



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operations in Thailand, the Philippines and India. Foreign currency translation had a \$2.8 million positive impact on total revenue during the year ended December 31, 2002. Cost of services increased by \$4.3 million, or 12.6%, primarily driven by higher producer compensation expense due to increased personnel in Australia, New Zealand and China, slightly offset by lower commissions due to conversions to affiliate offices elsewhere in Asia. Foreign currency translation had a \$1.3 million negative impact on cost of services for the year ended December 31, 2002. Operating, administrative and other expenses increased by \$0.4 million, or 0.9%, primarily due to increased bonuses as a result of improved results in Australia and New Zealand, partially offset by lower expenses as a result of sales of operations in Asia. Foreign currency translation also had a \$1.1 million negative impact on total operating expenses during the year ended December 31, 2002.

## **Liquidity and Capital Resources**

We believe we can satisfy our working capital requirements and funding of investments with internally generated cash flow and borrowings under the revolving credit facility of our amended and restated credit agreement described below. Included in the capital requirements that we expect to be able to fund are approximately \$40 million of anticipated capital expenditures, net of concessions received, during 2004. The capital expenditures for 2004 are primarily composed of information technology costs, which are driven largely by computer replacement costs as well as costs associated with upgrading various servers and systems, and leasehold improvements.

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

Although we currently do not have any specific acquisition plans, our management believes that any future material acquisitions that we make most likely would require us to obtain additional debt or equity financing. In the past, we have been able to obtain such financing for other material transactions on terms that our management believed to be reasonable. However, we may not be able to find acquisition financing on favorable terms in the future, if we decide to make any material acquisitions.

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan in 2008, our 9<sup>3</sup>/<sub>4</sub>% senior notes in 2010 and our 16% senior notes and 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in 2011. We expect to use a portion of the net proceeds we receive from the offering to redeem all of our remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and to prepay \$19.9 million in principal amount of the term loan under our amended and restated credit agreement. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay the other amounts of our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot assure you that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

The other primary component of our long-term liquidity needs are our obligations related to our deferred compensation plan and our U.K. pension plans. Pursuant to our deferred compensation plan, a select group of our management and other highly-compensated employees have been permitted to defer receipt of some or all of their compensation until future distribution dates and have the deferred amount credited towards specified investment alternatives. Except for deferrals into stock fund units that provide for future issuances of our



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common stock, the deferrals under the deferred compensation plan represent future cash payment obligations for us. We currently have invested in insurance funds for the purpose of funding approximately half of our future cash deferred compensation obligations. In addition, upon each distribution under the plan, we receive a corresponding tax deduction for such compensation payment. Our U.K. subsidiaries maintain pension plans with respect to which a limited number of our U.K. employees are participants. Our historical policy has been to fund pension costs as actuarially determined and as required by applicable law and regulations. As of December 31, 2003, based upon actuarial calculations of future benefit obligations under these plans, these plans were in the aggregate approximately \$44.2 million underfunded. Our management expects that any future obligations under our deferred compensation plan and pension plans that are not currently funded will be funded out of our future cash flow from operations.

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
	(In thousands)				
Total debt (1)	\$ 1,072,842	\$ 281,422	\$ 20,384	\$ 309,287	\$ 461,749
Operating leases (2)	710,262	96,123	167,164	134,094	312,881
Deferred compensation plan liability (3)(4)	138,037	6,087	13,435	12,117	106,398
Pension liability (3)(4)	35,998				35,998
<b>Total Contractual Obligations</b>	<b>\$ 1,957,139</b>	<b>\$ 383,632</b>	<b>\$ 200,983</b>	<b>\$ 455,498</b>	<b>\$ 917,026</b>

<b>Other Commitments</b>	<b>Amount of Commitments Expected by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
	(In thousands)				
Letters of credit (2)	\$ 22,557	\$ 22,557	\$	\$	\$
Guarantees (2)	8,976	8,976			
Co-investment commitments (2)	26,564	22,903	3,661		
<b>Total Commitments</b>	<b>\$ 58,097</b>	<b>\$ 54,436</b>	<b>\$ 3,661</b>	<b>\$</b>	<b>\$</b>

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

*Historical Cash Flows*

*Operating Activities*

Net cash used in operating activities totaled \$87.4 million for the three months ended March 31, 2004, an increase of \$16.6 million compared to the three months ended March 31, 2003. The acquisition of Insignia Financial Group on July 2003 has impacted substantially all components of cash used in our operating activities, making comparison against the same period in the prior year not meaningful.

Net cash provided by operating activities totaled \$63.9 million for the year ended December 31, 2003, a decrease of \$0.9 million compared to the year ended December 31, 2002. The acquisition of Insignia in July 2003

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has impacted substantially all components of cash provided by our operating activities making comparison against the prior year not meaningful.

Net cash provided by operating activities totaled \$64.9 million for the year ended December 31, 2002, an increase of \$93.8 million compared to the year ended December 31, 2001. This increase was primarily due to our improved 2002 earnings, as well as lower payments made in the year ended December 31, 2002 for 2001 bonus and profit sharing as compared to the 2000 bonus and profit sharing payments made in the year ended December 31, 2001.

### *Investing Activities*

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

Net cash used in investing activities totaled \$284.8 million for the year ended December 31, 2003, an increase of \$260.7 million compared to the year ended December 31, 2002. This increase was primarily due to costs incurred in 2003 associated with the Insignia acquisition. Capital expenditures, net of concessions received, of \$27.0 million during the year ended December 31, 2003 were \$12.7 million higher than 2002. This increase was mainly driven by net capital expenditures incurred in connection with our relocation to new offices in the United Kingdom in 2003.

We utilized \$24.1 million in investing activities during the year ended December 31, 2002, a decrease of \$249.4 million compared to the year ended December 31, 2001. This decrease was primarily due to the prior year payment of the purchase price and related expenses associated with our acquisition of CB Richard Ellis Services in July 2001. Capital expenditures, net of concessions received, of \$14.3 million during the year ended December 31, 2002 were \$7.0 million lower than 2001, driven primarily by efforts to reduce spending and improve cash flows.

### *Financing Activities*

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

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

Net cash used in financing activities totaled \$17.8 million for the year ended December 31, 2002 compared to cash provided by financing activities of \$340.1 million for the year ended December 31, 2001. This decrease was mainly attributable to the debt and equity financing

required for our acquisition of CB Richard Ellis Services in 2001.

***Indebtedness***

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. In

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addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. However, we currently do not have any specific acquisition plans. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase. For additional information regarding the terms of certain of our long-term indebtedness, see the information under the heading titled Description of Certain Long-Term Indebtedness.

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

In order to partially fund our acquisition of CB Richard Ellis Services in 2001, we entered into a credit agreement with Credit Suisse First Boston, or CSFB, and other lenders and borrowed \$235.0 million of term loans on July 20, 2001. To partially fund our acquisition of Insignia Financial Group in 2003, we amended and restated this credit agreement and borrowed an aggregate of an additional \$75.0 million of term loan on July 23, 2003. On October 14, 2003, we refinanced all of the outstanding loans under our amended and restated credit agreement and entered into a new amended and restated credit agreement. On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provides for the refinancing of all outstanding amounts under our current credit agreement and the amendment and restatement of our credit agreement upon the completion of the offering. The new amended and restated credit agreement generally will permit us, among other things, to use the net proceeds we receive from the offering in the manner described in this prospectus, including the redemption of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and the prepayment of \$19.9 million in principal amount of term loan under our amended and restated credit agreement. The new amended and restated credit agreement also will include the following: (1) a term loan facility of \$295.0 million, requiring quarterly principal payments of \$2.95 million through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$90.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. We expect that the new amended and restated credit agreement also will include an incremental revolving facility of \$60.0 million that will mature on March 31, 2009. The new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, subject to the satisfaction of customary conditions. The \$90.0 million revolving credit facility requires the repayment of any outstanding balance for a period of 45 consecutive days commencing on any day in the month of December of each year as determined by us. We repaid our revolving credit facility as of July 23, 2003 and November 5, 2002, and at December 31, 2003 and 2002, we had no outstanding amounts under our revolving credit facility. At March 31, 2004, however, we had \$13.3 million outstanding under our revolving credit facility.

Borrowings under the term loan facility bear interest at varying rates based, at our option, at either LIBOR plus 2.25% to 2.50% or the alternate base rate plus 1.25% to 1.50%, in both cases as determined by reference to the credit rating assigned to the term facility by Moody's Investors Service and Standard and Poor's. The potential increase of up to \$25.0 million for the term loan facility would bear interest either at the same rate as described in the immediately preceding sentence or, in some circumstances described in the new amended and restated credit agreement, at a higher or lower rate. Borrowings under the revolving credit facility bear interest at varying rates based on our option, at either the applicable LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA. We expect the \$60.0 million incremental revolving credit facility to bear interest at varying rates based, at our option, at either LIBOR plus 2.00% to 2.50% or the alternative base rate plus 1.00% to 1.50%, in both cases as determined by references to our ratio of total debt less available cash to EBITDA. The alternate

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

On May 22, 2003, CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, issued \$200.0 million in aggregate principal amount of 9¾% senior notes due May 15, 2010. The proceeds of this issuance were placed in escrow pending the completion of the Insignia acquisition on July 23, 2003, on which date the proceeds were released from escrow in order to partially fund the acquisition, CBRE Escrow merged with and into CB Richard Ellis Services and CB Richard Ellis Services assumed all obligations with respect to the 9¾% senior notes. The 9¾% senior notes are unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services' current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we may redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in our consolidated balance sheets included elsewhere in this prospectus was \$200.0 million as of March 31, 2004 and December 31, 2003. We expect to use a portion of the net proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, which also will require payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption.

In order to partially finance our acquisition of CB Richard Ellis Services in 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount, on June 7, 2001. CB Richard Ellis Services assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the merger of Blum CB with and into CB Richard Ellis Services on July 20, 2001. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we may redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11¼% senior subordinated notes included in our consolidated balance sheets included elsewhere in this prospectus, net of unamortized discount, was \$226.2 million as of March 31, 2004 and December 31, 2003, respectively. In May 2004, we purchased \$20.1 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid \$2.9 million of premiums in connection with these purchases.



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Also to partially fund our acquisition of CB Richard Ellis Services in 2001, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes are unsecured obligations, senior to all of our current and future unsecured indebtedness, but subordinated to all of our current and future secured indebtedness. Interest accrues at a rate of 16.0% per year and is payable quarterly in arrears. Interest may be paid in kind to the extent our ability to pay cash dividends is restricted by the terms of our amended and restated credit agreement. Additionally, interest in excess of 12.0% may, at our option, be paid in kind through July 2006. We elected to pay in kind the interest in excess of 12.0% that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003.

In the event of a change in control, we are obligated to make an offer to purchase all of our outstanding 16% senior notes at 101.0% of par. In addition, under the terms of the indenture governing the 16% senior notes, the notes are redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes pursuant to these exceptions. We paid \$2.9 million of premiums in connection with these redemptions.

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

Our amended and restated credit agreement and the indentures governing our 16% senior notes, our 9¾% senior notes and our 11¼% senior subordinated notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our amended and restated credit agreement also currently requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA to funded debt.

From time to time, Moody's Investors Service and Standard and Poor's Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% senior subordinated notes. Although neither the Moody's nor the Standard and Poor's ratings impact our ability to borrow, they may affect the applicable interest rate for our senior secured term loan. In addition, these ratings may impact our ability to borrow under new agreements in the future and the interest rates of any such future borrowings.

During 2001, a joint venture that we consolidated incurred \$37.2 million of non-recourse debt to acquire a real estate investment in Japan. The debt is secured by a mortgage on the acquired real estate asset. During the third quarter of 2003, the maturity date on this debt was extended to July 31, 2008. In our accompanying consolidated balance sheets, this debt comprised \$42.6 million and \$41.8 million of our other long-term debt as of March 31, 2004 and December 31, 2003, respectively. Additionally, during the third quarter of 2003, this joint venture incurred an additional \$1.9 million of non-recourse mortgage debt with a maturity date of June 15, 2004. As of March 31, 2004 and December 31, 2003, \$2.0 million of this non-recourse debt is included in short-term borrowings in our consolidated balance sheet included elsewhere in this prospectus.

Our wholly owned subsidiary, L.J. Melody & Company, has a credit agreement with Residential Funding Corporation, or RFC, for the purpose of funding mortgage loans that will be resold. The agreement provides for a revolving warehouse line of credit of up to \$200.0 million, bears interest at one-month LIBOR plus 1.0% and expires on August 31, 2004 and all outstanding borrowings will be due unless it is extended. On June 25, 2003, the agreement was modified to provide a temporary revolving line of credit increase of \$200.0 million that resulted in a total line of credit equaling \$400.0 million, which expired on August 30, 2003. By amendment on November 14, 2003, the agreement was modified to provide a revolving line of credit increase of \$50.0 million



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

L.J. Melody & Company also has a credit agreement with JP Morgan Chase. The credit agreement provides for a revolving line of credit of up to \$20.0 million, bears interest at 1.0% in excess of the bank's cost of funds and expires on May 28, 2004. L.J. Melody uses this credit line from time to time to fund short-term investments in governmental and quasi-governmental instruments. Any such investments acquired by L.J. Melody are pledged as collateral for outstanding borrowings under the credit line. At March 31, 2004 and December 31, 2003, no amounts were outstanding under this line of credit.

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

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the United Kingdom, which was part of Insignia's business strategy of increasing its presence in that country. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of March 31, 2004 and December 31, 2003 \$12.6 million and \$12.2 million, respectively, of the acquisition loan notes were outstanding, which are included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by the bank plus 2.5%. The amount of the Euro cash pool loan included in short-term borrowings in our consolidated balance sheets included elsewhere in this prospectus was \$11.5 million as of December 31, 2003. At March 31, 2004, there were no amounts outstanding under the Euro cash pool.

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

Each participant in our deferred compensation plan, or DCP, is allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 30 mutual funds. In addition, prior to our acquisition of CB Richard Ellis Services in 2001, participants were entitled to invest their deferrals in stock fund units that allowed them to receive future distributions of shares of CB Richard Ellis Services common stock. As of May 31, 2004, there were 3,129,279 shares underlying outstanding stock fund units under the DCP, 1,948,133 of which had vested. Shares are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants or distributions made by us. Except for the stock funds units, all deferrals under the DCP represent obligations to make future cash payments. The deferred compensation liability in our consolidated balance sheets included elsewhere in this prospectus was \$145.0 million and \$138.0 million at March 31, 2004 and December 31, 2003 and 2002, respectively.

Effective January 1, 2004, we closed the DCP to new participants. Currently, the DCP is accepting compensation deferrals from participants who have a balance, meet the eligibility requirements and elect to participate, up to a maximum annual contribution amount of \$250,000 per participant. As permitted by its terms, we expect to terminate the DCP shortly after the offering is completed and adopt a new deferred compensation plan. The existing deferrals under the interest index funds and the insurance fund in the DCP will be paid to participants in the future according to their existing deferral elections under the plan. With respect to existing deferrals in stock fund units, we expect that substantially all of the shares of common stock underlying such units will be distributed to participants in distributions initiated by us during October of 2004.

Because a substantial majority of the deferrals under the DCP have a distribution date based upon the end of the relevant participant's employment with us, we have an ongoing obligation to make distributions to these participants as they leave our employment. As the level of employee departures is not predictable, the timing of these obligations also is not predictable. Accordingly, we may face significant unexpected cash funding obligations in the future if a larger number of our employees leave our employment than we expect.

### ***Pension Liability***

Our subsidiaries based in the United Kingdom maintain two defined benefit pension plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm and as required by applicable laws and regulations. Our contributions to these plans are invested and, if these investments do not perform in the future as well as we expect, we will be required to provide additional funding to cover the shortfall. The pension liability in our consolidated balance sheets included elsewhere in this prospectus was \$38.9 million and \$36.0 million at March 31, 2004 and December 31, 2003, respectively.

### ***Other Obligations and Commitments***

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of March 31, 2004, an aggregate of approximately \$10.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale,

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Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island Fund agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a

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letter of credit to us in the amount of approximately \$2.9 million as security for Island Fund's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island Fund will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island Fund's future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island Fund.

L.J. Melody & Company previously executed an agreement with Federal National Mortgage Association, or Fannie Mae, to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and we retained the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$98.6 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$1.0 million. The other 1% is covered in the form of a guarantee to Fannie Mae.

We had outstanding letters of credit totaling \$24.3 million as of March 31, 2004, excluding letters of credit securing our outstanding indebtedness. Approximately \$12.6 million of these letters of credit secure certain office leases and are outstanding pursuant to the revolving credit facility under our amended and restated credit agreement. An additional \$10.7 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island Fund described above and are outstanding pursuant to a reimbursement agreement with the Bank of Nova Scotia. Under this agreement, we may issue up to a maximum of approximately \$11.0 million of letters of credit at any one time and these outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The remaining outstanding letter of credit, which is for the Fannie Mae agreement as described above, was issued pursuant to a credit agreement with Wells Fargo Bank. Under this agreement, we may issue up to a maximum of \$8.0 million of letters of credit at any one time and these outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The outstanding letters of credit as of March 31, 2004 expire at varying dates through March 31, 2005. However, we are obligated to renew the letters of credit related to certain office leases until as late as 2023, the letters of credit related to the Island Fund purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling \$9.0 million as of March 31, 2004, which consisted primarily of guarantees of property debt, as well as the obligations to Island Fund and Fannie Mae discussed above. Approximately \$4.8 million of the guarantees is related to investment activity that is scheduled to expire in October 2008. Approximately \$1.7 million of the guarantees is related to office leases in Europe and Asia. These guarantees will expire at the end of the lease terms. The guarantee obligation related to the agreement with Fannie Mae discussed above will expire in December 2004. The guarantee related to the Island Fund purchase agreement will expire on the August 30, 2004 maturity date of the underlying loan agreement, unless such loan is renewed, modified or extended prior to such date to provide for a later maturity date. Renewals, modifications and extensions of such loan may be made without our consent, but the \$1.3 million amount of our guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of March 31, 2004, we had committed \$22.6 million to fund future co-investments. We expect that approximately \$19 million of these commitments will be funded during 2004. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

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



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### **Seasonality**

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

### **Inflation**

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

### **Application of Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. We believe that the following critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements:

#### ***Revenue Recognition***

We record real estate commissions on sales upon close of escrow or upon transfer of title. Real estate commissions on leases are generally recorded as income once we satisfy all obligations under the commission agreement. A typical commission agreement provides that we earn a portion of the lease commission upon the execution of the lease agreement by the tenant, while the remaining portion(s) of the lease commission is earned at a later date, usually upon tenant occupancy. The existence of any significant future contingencies will result in the delay of recognition of revenue until such contingencies are satisfied. For example, if we do not earn all or a portion of the lease commission until the tenant pays its first month's rent, and the lease agreement provides the tenant with a free rent period, we delay revenue recognition until cash rent is paid by the tenant. Investment management and property management fees are recognized when earned under the provisions of the related agreements. Appraisal fees are recorded after services have been rendered. Loan origination fees are recognized at the time the loan closes and we have no significant remaining obligations for performance in connection with the transaction, while loan servicing fees are recorded to revenue as monthly principal and interest payments are collected from mortgagors. Other commissions, consulting fees and referral fees are recorded as income at the time the related services have been performed unless significant future contingencies exist.

In establishing the appropriate provisions for trade receivables, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivables balances. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are more than 180 days overdue are fully provided for.



*Principles of Consolidation*

Our consolidated financial statements included elsewhere in this prospectus include our accounts and those of our majority owned subsidiaries. Additionally, the consolidated financial statements included elsewhere in this prospectus include the accounts of CB Richard Ellis Services prior to the date we acquired it in 2001, as CB

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Richard Ellis Services is considered our predecessor for purposes of Regulation S-X. The equity attributable to minority shareholders' interests in subsidiaries is shown separately in our consolidated balance sheets included elsewhere in this prospectus. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

### ***Goodwill and Other Intangible Assets***

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

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

### **New Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, or FIN 46, *Consolidation of Variable Interest Entities*. This standard clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and addresses consolidation by business enterprises of variable interest entities. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. This statement is immediately effective for variable interest entities created or in which an enterprise obtains an interest after January 31, 2003.

In December 2003, the FASB issued a revised version of FIN 46, or FIN 46R. Among other things, the revision clarifies the definition of a variable interest entity, exempts most entities that are businesses from the scope of FIN 46R and delays the effective date of the revised standard to no later than the end of the first reporting period ending after December 15, 2003 for special purpose entities and March 15, 2004 for all other types of entities. The adoption of this interpretation has not had, and is not expected to have, a material impact on our financial position or

results of operations.

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In April 2003, the FASB issued SFAS No. 149, *Amendment to Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is applied prospectively and is effective for contracts entered into or modified after June 30, 2003, except for SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 and certain provisions relating to forward purchases and sales on securities that do not yet exist. The adoption of this statement has not had a material impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for the classification and measurement of financial instruments with characteristics of both liabilities and equity. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to our existing financial instruments effective July 1, 2003. On October 29, 2003, the FASB deferred indefinitely the provisions of paragraphs 9 and 10 and related guidance in the appendices of this pronouncement as they apply to mandatorily redeemable noncontrolling interests. The adoption of the effective provisions of SFAS No. 150 have not had a material impact on our financial position or results of operations.

In December 2003, the FASB issued a revised version of SFAS No. 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revised statement retains the disclosure requirements contained in SFAS No. 132 and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. We have adopted this statement for the year ended December 31, 2003. In addition, we expect to adopt additional disclosures for our U.K. pension plans during 2004.

## **Quantitative and Qualitative Disclosures About Market Risk**

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

### *Exchange Rates*

Approximately 30.2% of our business was transacted in local currencies of foreign countries for the year ended December 31, 2003, the majority of which included the Euro, the British pound sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. We attempt to manage our exposure primarily by balancing assets and liabilities, and maintaining cash positions in foreign countries only at levels necessary for operating purposes. However, we do not enter into agreements to hedge the risks associated with translation of foreign currencies into U.S. dollars. As a result, fluctuations in foreign currency exchange rates affect reported amounts of our total assets and liabilities, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the exchange rate in effect on the respective balance sheet dates, and our total revenues and expenses, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the monthly average exchange rate. For example, during 2003, the U.S. dollar dropped against many of the currencies in which we conduct business. During the three months ended March 31, 2004, foreign currency translation had a \$17.4 million positive impact on total revenue and a \$16.8 million negative impact on our total costs of services and operating, administrative and other expenses. During the year ended December 31, 2003, foreign currency translation had a \$54.4 million positive impact on our total revenue and a \$47.3 million negative impact on our total costs of services and operating, administrative and other expenses.

We routinely monitor our exposure to currency exchange rate changes in connection with transactions and sometimes enter into foreign currency exchange forward and option contracts to limit our exposure to such

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transactions, as appropriate. We apply Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities*, when accounting for any such contracts. In the normal course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange forward contracts to mitigate foreign currency exchange exposure resulting from intercompany loans. In all cases, we view derivative financial instruments as a risk management tool and, accordingly, do not engage in any speculative activities with respect to foreign currency. At March 31, 2004, we had foreign currency exchange forward contracts with an aggregate notional amount of \$34.2 million that mature on various dates through December 31, 2004. The net impact on our earnings for the three months ended March 31, 2004 resulting from unrealized gains and/or losses on these foreign currency exchange forward contracts was not significant. On April 6, 2004, we entered into an option agreement to purchase an aggregate notional amount of 8.7 million British pounds sterling, which matures on December 29, 2004.

*Interest Rates*

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

<u>Year of Maturity</u>	<u>Fixed Rate</u>	<u>One-Month Yen LIBOR +3.5%</u>	<u>One-Month LIBOR +1.0%</u>	<u>Six-Month LIBOR +3.25%</u>	<u>Interest Rate Range of 1.0% to 6.25%</u>	<u>Six-Month Yen LIBOR +3.75%</u>	<u>Six-Month GBP LIBOR 2.0%</u>	<u>Total</u>
(Dollars in thousands)								
2004	\$ 20,445	\$	\$ 230,790	\$ 12,006 (1)	\$ 12,663	\$ 373	\$ 5,145	\$ 281,422
2005	367			10,000				10,367
2006	17			10,000				10,017
2007	17			10,000				10,017
2008	17	41,753		257,500 (2)				299,270
Thereafter (3)	461,749							