

CBRE GROUP, INC.  
Form 10-Q  
August 10, 2015  
Table of Contents

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2015

or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001 32205

**CBRE GROUP, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)

400 South Hope Street, 25<sup>th</sup> Floor

Los Angeles, California

94-3391143  
(I.R.S. Employer

Identification Number)

90071

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

(Address of principal executive offices)

(Zip Code)

(213) 613-3333

Not applicable

(Registrant's telephone number, including area code)

(Former name, former address and

former fiscal year if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The number of shares of Class A common stock outstanding at July 31, 2015 was 333,179,917.

**Table of Contents**

**FORM 10-Q**

**June 30, 2015**

**TABLE OF CONTENTS**

<b>PART I - FINANCIAL INFORMATION</b>		<b>Page</b>
<b>Item 1.</b>	<b>Financial Statements</b>	
	<u>Consolidated Balance Sheets at June 30, 2015 (Unaudited) and December 31, 2014</u>	3
	<u>Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014 (Unaudited)</u>	4
	<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (Unaudited)</u>	6
	<u>Consolidated Statement of Equity for the six months ended June 30, 2015 (Unaudited)</u>	7
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<b>Item 2.</b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	38
<b>Item 3.</b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	63
<b>Item 4.</b>	<b><u>Controls and Procedures</u></b>	64
 <b>PART II - OTHER INFORMATION</b>		
<b>Item 1.</b>	<b><u>Legal Proceedings</u></b>	65
<b>Item 1A.</b>	<b><u>Risk Factors</u></b>	65
<b>Item 2.</b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	65
<b>Item 6.</b>	<b><u>Exhibits</u></b>	66
	<b><u>Signatures</u></b>	69

**Table of Contents****CBRE GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except share data)**

	<b>June 30, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 336,422	\$ 740,884
Restricted cash	66,011	28,090
Receivables, less allowance for doubtful accounts of \$44,060 and \$41,831 at June 30, 2015 and December 31, 2014, respectively	1,604,620	1,736,229
Warehouse receivables	750,816	506,294
Trading securities	68,553	62,804
Income taxes receivable	49,995	12,709
Prepaid expenses	154,460	142,719
Deferred tax assets, net	204,858	205,866
Real estate and other assets held for sale	1,899	3,845
Available for sale securities	1,129	663
Other current assets	104,193	84,401
<b>Total Current Assets</b>	<b>3,342,956</b>	<b>3,524,504</b>
Property and equipment, net	484,032	497,926
Goodwill	2,313,819	2,333,821
Other intangible assets, net of accumulated amortization of \$520,767 and \$463,400 at June 30, 2015 and December 31, 2014, respectively	806,102	802,360
Investments in unconsolidated subsidiaries	222,539	218,280
Real estate under development	13,868	4,630
Real estate held for investment	21,217	37,129
Available for sale securities	58,123	59,512
Other assets, net	197,603	168,943
<b>Total Assets</b>	<b>\$ 7,460,259</b>	<b>\$ 7,647,105</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 764,524	\$ 827,530
Compensation and employee benefits payable	577,967	623,814
Accrued bonus and profit sharing	421,108	788,858
Short-term borrowings:		
Warehouse lines of credit	743,592	501,185
Revolving credit facility		4,840
Other	895	25
<b>Total short-term borrowings</b>	<b>744,487</b>	<b>506,050</b>
Current maturities of long-term debt	13,894	42,407
Notes payable on real estate	1,625	23,229
Other current liabilities	71,169	63,746
<b>Total Current Liabilities</b>	<b>2,594,774</b>	<b>2,875,634</b>
Long-Term Debt:		
5.00% senior notes	800,000	800,000
Senior term loans	484,375	605,963
5.25% senior notes	426,774	426,813
Other long-term debt	7	26

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Total Long-Term Debt	1,711,156	1,832,802
Notes payable on real estate	23,194	19,614
Deferred tax liabilities, net	167,294	149,233
Non-current tax liabilities	48,869	46,003
Pension liability	91,028	92,923
Other liabilities	320,416	329,498
<b>Total Liabilities</b>	<b>4,956,731</b>	<b>5,345,707</b>
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders' Equity:		
Class A common stock; \$0.01 par value; 525,000,000 shares authorized; 333,100,934 and 332,991,031 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	3,331	3,330
Additional paid-in capital	1,067,934	1,039,425
Accumulated earnings	1,759,061	1,541,095
Accumulated other comprehensive loss	(370,734)	(324,020)
<b>Total CBRE Group, Inc. Stockholders' Equity</b>	<b>2,459,592</b>	<b>2,259,830</b>
Non-controlling interests	43,936	41,568
<b>Total Equity</b>	<b>2,503,528</b>	<b>2,301,398</b>
<b>Total Liabilities and Equity</b>	<b>\$ 7,460,259</b>	<b>\$ 7,647,105</b>

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

**Table of Contents****CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 2,390,506	\$ 2,126,806	\$ 4,443,009	\$ 3,987,648
Costs and expenses:				
Cost of services	1,487,974	1,314,473	2,778,751	2,475,933
Operating, administrative and other	610,158	566,202	1,141,933	1,094,597
Depreciation and amortization	70,605	63,295	140,451	128,498
Total costs and expenses	2,168,737	1,943,970	4,061,135	3,699,028
Gain on disposition of real estate	6,986	23,170	6,986	29,867
Operating income	228,755	206,006	388,860	318,487
Equity income from unconsolidated subsidiaries	6,693	9,264	22,144	24,264
Other (loss) income	(1,069)	6,364	18	11,165
Interest income	1,402	1,146	3,699	2,723
Interest expense	26,154	28,470	52,368	56,485
Write-off of financing costs			2,685	
Income before provision for income taxes	209,627	194,310	359,668	300,154
Provision for income taxes	76,474	64,111	133,377	102,013
Net income	133,153	130,199	226,291	198,141
Less: Net income attributable to non-controlling interests	8,124	24,735	8,325	25,014
Net income attributable to CBRE Group, Inc.	\$ 125,029	\$ 105,464	\$ 217,966	\$ 173,127
Basic income per share attributable to CBRE Group, Inc.	\$ 0.38	\$ 0.32	\$ 0.66	\$ 0.52
Weighted average shares outstanding for basic income per share	331,999,935	330,133,061	331,988,489	330,084,525
Diluted income per share attributable to CBRE Group, Inc.	\$ 0.37	\$ 0.32	\$ 0.65	\$ 0.52
Weighted average shares outstanding for diluted income per share	336,154,524	333,918,620	335,926,626	333,634,342

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



**Table of Contents****CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(Dollars in thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 133,153	\$ 130,199	\$ 226,291	\$ 198,141
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	57,508	24,873	(47,912)	36,446
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax	1,809	1,826	3,604	3,626
Unrealized gains (losses) on interest rate swaps and interest rate caps, net of tax	263	(2,810)	(2,511)	(4,314)
Unrealized holding gains (losses) on available for sale securities, net of tax	237	(1,294)	71	(856)
Other, net	16	(140)	18	135
Total other comprehensive income (loss)	59,833	22,455	(46,730)	35,037
Comprehensive income	192,986	152,654	179,561	233,178
Less: Comprehensive income attributable to non-controlling interests	8,141	24,738	8,309	25,023
Comprehensive income attributable to CBRE Group, Inc.	\$ 184,845	\$ 127,916	\$ 171,252	\$ 208,155

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



**Table of Contents****CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollars in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 226,291	\$ 198,141
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	140,451	128,498
Amortization and write-off of financing costs	7,264	3,645
Gain on sale of loans, servicing rights and other assets	(74,135)	(33,277)
Net realized and unrealized gains from investments	(18)	(11,165)
Gain on disposition of real estate held for investment	(6,488)	(23,028)
Equity income from unconsolidated subsidiaries	(22,144)	(24,264)
Provision for doubtful accounts	4,412	4,507
Deferred income taxes	(2,410)	(7,884)
Compensation expense related to equity awards	29,132	24,471
Incremental tax benefit from stock options exercised	(1,078)	(2,158)
Distribution of earnings from unconsolidated subsidiaries	13,174	9,297
Tenant concessions received	6,262	6,199
Purchase of trading securities	(42,653)	(35,728)
Proceeds from sale of trading securities	35,596	32,786
Decrease (increase) in receivables	113,769	(123,958)
Increase in prepaid expenses and other assets	(43,118)	(21,841)
(Increase) decrease in real estate held for sale and under development	(3,417)	4,438
Decrease in accounts payable and accrued expenses	(9,767)	(62,939)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(390,333)	(223,419)
Increase in income taxes receivable/payable	(14,125)	(72,131)
(Decrease) increase in other liabilities	(4,971)	10,820
Other operating activities, net	(3,885)	(4,994)
Net cash used in operating activities	(42,191)	(223,984)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(50,388)	(53,605)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired	(94,975)	(29,777)
Contributions to unconsolidated subsidiaries	(27,571)	(25,440)
Distributions from unconsolidated subsidiaries	27,269	22,847
Net proceeds from disposition of real estate held for investment		68,183
Additions to real estate held for investment	(1,411)	(5,144)
Proceeds from the sale of servicing rights and other assets	12,615	12,820
(Increase) decrease in restricted cash	(38,678)	14,201
Purchase of available for sale securities	(23,453)	(41,466)
Proceeds from the sale of available for sale securities	24,563	35,056
Other investing activities, net	1,192	327
Net cash used in investing activities	(170,837)	(1,998)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from senior term loans	500,000	
Repayment of senior term loans	(648,738)	(19,825)
Proceeds from revolving credit facility	831,000	1,154,568
Repayment of revolving credit facility	(835,512)	(962,315)

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Proceeds from notes payable on real estate held for investment		3,575
Repayment of notes payable on real estate held for investment	(776)	(22,990)
Proceeds from notes payable on real estate held for sale and under development	4,404	4,885
Repayment of notes payable on real estate held for sale and under development		(32,984)
Proceeds from short-term borrowings, net	569	6,538
Shares repurchased for payment of taxes on equity awards	(5,113)	(15)
Proceeds from exercise of stock options	3,214	2,209
Incremental tax benefit from stock options exercised	1,078	2,158
Non-controlling interests contributions	4,405	574
Non-controlling interests distributions	(10,637)	(24,120)
Payment of financing costs	(22,225)	(104)
Other financing activities, net	(2,138)	(1,431)
Net cash (used in) provided by financing activities	(180,469)	110,723
Effect of currency exchange rate changes on cash and cash equivalents	(10,965)	5,213
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(404,462)</b>	<b>(110,046)</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>740,884</b>	<b>491,912</b>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 336,422</b>	<b>\$ 381,866</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>Cash paid during the period for:</b>		
<b>Interest</b>	<b>\$ 43,123</b>	<b>\$ 51,214</b>
<b>Income tax payments, net</b>	<b>\$ 148,011</b>	<b>\$ 182,315</b>

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

**Table of Contents****CBRE GROUP, INC.****CONSOLIDATED STATEMENT OF EQUITY****(Unaudited)****(Dollars in thousands)**

	CBRE Group, Inc. Shareholders					Total
	Class A common stock	Additional paid-in capital	Accumulated earnings	Accumulated other comprehensive loss	Non- controlling interests	
Balance at December 31, 2014	\$ 3,330	\$ 1,039,425	\$ 1,541,095	\$ (324,020)	\$ 41,568	\$ 2,301,398
Net income			217,966		8,325	226,291
Stock options exercised (including tax benefit)	2	4,290				4,292
Compensation expense for equity awards		29,132				29,132
Shares repurchased for payment of taxes on equity awards	(1)	(5,112)				(5,113)
Foreign currency translation loss				(47,896)	(16)	(47,912)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax				3,604		3,604
Unrealized losses on interest rate swaps, net of tax				(2,511)		(2,511)
Unrealized holding gains on available for sale securities, net of tax				71		71
Contributions from non-controlling interests					4,405	4,405
Distributions to non-controlling interests					(10,637)	(10,637)
Other		199		18	291	508
Balance at June 30, 2015	\$ 3,331	\$ 1,067,934	\$ 1,759,061	\$ (370,734)	\$ 43,936	\$ 2,503,528

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

---

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Basis of Presentation**

The accompanying consolidated financial statements of CBRE Group, Inc., a Delaware corporation (which may be referred to in these financial statements as the company, we, us and our), have been prepared in accordance with the rules applicable to Quarterly Reports on Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (GAAP) for annual financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of revenue and expenses. Such estimates include the value of goodwill, intangibles and other long-lived assets, real estate assets, accounts receivable, investments in unconsolidated subsidiaries and assumptions used in the calculation of income taxes, retirement and other post-employment benefits, among others. These estimates and assumptions are based on our best judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. Certain reclassifications have been made to the 2014 financial statements to conform with the 2015 presentation.

The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2015. The unaudited interim consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2014.

**2. New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance under accounting principles generally accepted in the United States, or GAAP, when it becomes effective on January 1, 2018. This ASU permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of this ASU on our ongoing financial reporting.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU provides consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. ASU 2015-02 offers updated consolidation evaluation criteria and may require additional disclosures. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. We do not believe the adoption of ASU 2015-02 will have a material impact on our consolidated financial position, results of operations or disclosure requirements of our consolidated financial statements.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and requires the use of the retrospective method. ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. We do not believe the adoption of this ASU will have a material impact on our consolidated financial position.

**3. Acquisition of Global WorkPlace Solutions**

On March 31, 2015, CBRE, Inc., our wholly-owned subsidiary, entered into a Stock and Asset Purchase Agreement with Johnson Controls, Inc. (JCI) to acquire JCI's Global WorkPlace Solutions (GWS) business. GWS is a market-leading provider of Integrated Facilities Management solutions for major occupiers of commercial real estate and has significant operations around the world. The purchase price is \$1.475 billion, payable in cash, with adjustments for working capital and other items. We expect to fund the acquisition through a combination of cash on hand and proceeds from the incurrence of debt. The closing of the transaction is subject to receipt of customary regulatory approvals and satisfaction of other customary closing conditions. The transaction is expected to close in the late third quarter or early fourth quarter of 2015.

**4. Variable Interest Entities (VIEs)**

A consolidated subsidiary (the Venture) in our Global Investment Management segment sponsored investments by third-party investors in certain commercial properties through the formation of tenant-in-common limited liability companies and Delaware Statutory Trusts (collectively referred to as the Entities) that were owned by the third-party investors. The Venture also formed and was a member of a limited liability company for each property that served as master tenant (Master Tenant). Each Master Tenant leased the property from the Entities through a master lease agreement. Pursuant to the master lease agreements, the Master Tenant had the power to direct the day-to-day asset management activities that most significantly impacted the economic performance of the Entities. As a result, the Entities were deemed to be VIEs since the third-party investors holding the equity investment at risk in the Entities did not direct the day-to-day activities that most significantly impacted the economic performance of the properties held by the Entities. The Venture made voluntary contributions to each of these properties to support their operations beyond the cash flow generated by the properties themselves and such financial support was significant enough that the Venture was deemed to be the primary beneficiary of each Entity. During 2014, the remaining two commercial properties were sold.

The venture did not provide any financial support to the Entities during the six months ended June 30, 2014. The assets of the Entities were the sole collateral for the mortgage notes payable and other liabilities of the Entities and, as such, the creditors and equity investors of these Entities had no recourse to our assets held outside of these Entities.

Operating results relating to the Entities for the three and six months ended June 30, 2014 included the following (dollars in thousands):

	<b>Three Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2014</b>
Revenue	\$ 1,459	\$ 3,561
Operating, administrative and other expenses	\$ 1,355	\$ 2,588
Gain on disposition of real estate	\$ 23,028	\$ 23,028
Net income attributable to non-controlling interests	\$ 22,202	\$ 21,724



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We also hold variable interests in certain VIEs in our Global Investment Management and Development Services segments which are not consolidated as it was determined that we are not the primary beneficiary. Our involvement with these entities is in the form of equity co-investments and fee arrangements.

As of June 30, 2015 and December 31, 2014, our maximum exposure to loss related to the VIEs which are not consolidated was as follows (dollars in thousands):

	June 30, 2015	December 31, 2014
Investments in unconsolidated subsidiaries	\$ 22,263	\$ 26,353
Other assets, current	3,523	3,337
Co-investment commitments	200	200
Maximum exposure to loss	\$ 25,986	\$ 29,890

**5. Fair Value Measurements**

The *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification (ASC) (Topic 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

There were no significant transfers in or out of Level 1 and Level 2 during the three and six months ended June 30, 2015 and 2014.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

There have been no significant changes to the valuation techniques and inputs used to develop the recurring fair value measurements from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. The following tables present the fair value of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	As of June 30, 2015			Total
	Level 1	Level 2	Level 3	
<i>Assets</i>				
Available for sale securities:				
U.S. treasury securities	\$ 4,553	\$	\$	\$ 4,553
Debt securities issued by U.S. federal agencies		6,469		6,469
Corporate debt securities		18,418		18,418
Asset-backed securities		3,023		3,023
Collateralized mortgage obligations		1,910		1,910
Total debt securities	4,553	29,820		34,373
Equity securities	24,879			24,879
Total available for sale securities	29,432	29,820		59,252
Trading securities	68,553			68,553
Warehouse receivables		750,816		750,816
Loan commitments			6,569	6,569
Foreign currency exchange forward contracts		7,127		7,127
Total assets at fair value	\$ 97,985	\$ 787,763	\$ 6,569	\$ 892,317
<i>Liabilities</i>				
Interest rate swaps	\$	\$ 25,106	\$	\$ 25,106
Securities sold, not yet purchased	3,472			3,472
Foreign currency exchange forward contracts		5,061		5,061
Total liabilities at fair value	\$ 3,472	\$ 30,167	\$	\$ 33,639



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	As of December 31, 2014			Total
	Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	
<i>Assets</i>				
Available for sale securities:				
U.S. treasury securities	\$ 4,813	\$	\$	\$ 4,813
Debt securities issued by U.S. federal agencies		6,690		6,690
Corporate debt securities		16,664		16,664
Asset-backed securities		3,755		3,755
Collateralized mortgage obligations		1,959		1,959
Total debt securities	4,813	29,068		33,881
Equity securities	26,294			26,294
Total available for sale securities	31,107	29,068		60,175
Trading securities	62,804			62,804
Warehouse receivables		506,294		506,294
Loan commitments			2,372	2,372
Foreign currency exchange forward contracts		1,235		1,235
Total assets at fair value	\$ 93,911	\$ 536,597	\$ 2,372	\$ 632,880
 <i>Liabilities</i>				
Interest rate swaps	\$	\$ 26,895	\$	\$ 26,895
Securities sold, not yet purchased	1,830			1,830
Foreign currency exchange forward contracts		1,397		1,397
Total liabilities at fair value	\$ 1,830	\$ 28,292	\$	\$ 30,122

There were no significant non-recurring fair value measurements recorded during the three and six months ended June 30, 2015 and 2014.

The following table provides additional information about fair value measurements for the Level 3 assets for the six months ended June 30, 2015 (dollars in thousands):

Balance at January 1, 2015	\$ 2,372
Net gains included in earnings	10,584
Settlements	(6,387)
Transfers into (out of) Level 3	
Ending balance at June 30, 2015	\$ 6,569

FASB ASC Topic 825, *Financial Instruments* requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Our financial instruments are as follows:

## Edgar Filing: CBRE GROUP, INC. - Form 10-Q

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

*Receivables, less Allowance for Doubtful Accounts:* Due to their short-term nature, fair value approximates carrying value.

---

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

*Warehouse Receivables:* These balances are carried at fair value based on market prices at the balance sheet date.

*Trading and Available for Sale Securities:* These investments are carried at their fair value.

*Foreign Currency Exchange Forward Contracts and Loan Commitments:* These assets and liabilities are carried at their fair value as calculated by using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative (see Note 6).

*Securities Sold, not yet Purchased:* These liabilities are carried at their fair value.

*Short-Term Borrowings:* The majority of this balance represents outstanding amounts under our warehouse lines of credit for CBRE Capital Markets, Inc. (CBRE Capital Markets) and our revolving credit facility. Due to the short-term nature and variable interest rates of these instruments, fair value approximates carrying value.

*Senior Term Loans:* Based upon information from third-party banks (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our senior term loans was approximately \$496.9 million and \$645.1 million at June 30, 2015 and December 31, 2014, respectively. Their actual carrying value totaled \$496.9 million and \$645.6 million at June 30, 2015 and December 31, 2014, respectively (see Note 11).

*Interest Rate Swaps:* These liabilities are carried at their fair value as calculated by using widely-accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative (see Note 6).

*5.00% Senior Notes:* Based on dealers' quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 5.00% senior notes was \$810.0 million and \$818.0 million at June 30, 2015 and December 31, 2014, respectively. Their actual carrying value totaled \$800.0 million at both June 30, 2015 and December 31, 2014.

*5.25% Senior Notes:* Based on dealers' quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 5.25% senior notes was \$439.9 million and \$439.7 million at June 30, 2015 and December 31, 2014, respectively. Their actual carrying value totaled \$426.8 million at both June 30, 2015 and December 31, 2014.

*Notes Payable on Real Estate:* As of June 30, 2015 and December 31, 2014, the carrying value of our notes payable on real estate was \$24.8 million and \$42.8 million, respectively (see Note 10). These borrowings generally have floating interest rates at spreads added to a market rate index. It is likely that some portion of our notes payable on real estate have fair values lower than actual carrying values. Given the cost involved in estimating their fair value, we determined it was not practicable to do so. Additionally, these notes payable were not recourse to us as of June 30, 2015 or December 31, 2014.

**6. Derivative Financial Instruments**

We are exposed to certain risks arising from both our business operations and economic conditions. We manage economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of our debt funding and by using derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known but uncertain cash amounts, the value of which are determined by interest rates. Our

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings. We do not net derivatives on our balance sheet. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy.

In March 2011, we entered into five interest rate swap agreements, all with effective dates in October 2011, and immediately designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. The purpose of these interest rate swap agreements is to attempt to hedge potential changes to our cash flows due to the variable interest nature of our senior term loan facilities. The total notional amount of these interest rate swap agreements is \$400.0 million, with \$200.0 million expiring in October 2017 and \$200.0 million expiring in September 2019. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no significant hedge ineffectiveness for the three and six months ended June 30, 2015 and 2014. The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive loss on the balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. We reclassified \$3.0 million and \$5.9 million for the three and six months ended June 30, 2015, respectively, and \$3.0 million and \$5.9 million for the three and six months ended June 30, 2014, respectively, from accumulated other comprehensive loss to interest expense. During the next twelve months, we estimate that \$11.0 million will be reclassified from accumulated other comprehensive loss to interest expense. In addition, we recorded net gains of \$0.4 million and net losses of \$4.1 million for the three and six months ended June 30, 2015, respectively, and net losses of \$4.6 million and \$7.2 million for the three and six months ended June 30, 2014, respectively, to other comprehensive income/loss in relation to such interest rate swap agreements. As of June 30, 2015 and December 31, 2014, the fair values of such interest rate swap agreements were reflected as a \$25.1 million liability and a \$26.9 million liability, respectively, and were included in other long-term liabilities in the accompanying consolidated balance sheets.

Additionally, our foreign operations expose us to fluctuations in foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments in terms of our functional (reporting) currency, which is U.S. dollars. We enter into derivative financial instruments to attempt to protect the value or fix the amount of certain obligations in terms of our reporting currency, the U.S. dollar. In March 2014, we began a foreign currency exchange forward hedging program by entering into 38 foreign currency exchange forward contracts, including agreements to buy U.S. dollars and sell Australian dollars, British pound sterling, Canadian dollars, euros and Japanese yen, covering an initial notional amount of \$209.7 million. The purpose of these forward contracts is to attempt to mitigate the risk of fluctuations in foreign currency exchange rates that would adversely impact some of our foreign currency denominated EBITDA. Hedge accounting was not elected for any of these contracts. As such, changes in the fair values of these contracts are recorded directly in earnings. Included in the consolidated statement of operations were net losses of \$11.1 million and net gains of \$7.3 million from foreign currency exchange forward contracts for the three and six months ended June 30, 2015, respectively, and net losses of \$3.4 million from foreign currency exchange forward contracts for both the three and six months ended June 30, 2014. As of June 30, 2015, we had 83 foreign currency exchange forward contracts outstanding covering a notional amount of \$367.7 million. As of June 30, 2015, the fair value of forward contracts with five counterparties aggregated to a \$7.1 million asset position, which was included in other current assets in the accompanying consolidated balance sheets. As of June 30, 2015, the fair value of forward contracts with six counterparties aggregated to a \$4.6 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets. As of December 31, 2014, the fair value of forward contracts with two counterparties aggregated to a \$0.5 million asset position, which was included in other current assets in the accompanying consolidated balance sheets. As of December 31, 2014, the fair value of forward contracts with four counterparties aggregated to a \$1.3 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets.

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We also routinely monitor our exposure to currency exchange rate changes in connection with certain transactions and sometimes enter into foreign currency exchange option and forward contracts to limit our exposure to such transactions, as appropriate. In the ordinary course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange contracts to attempt to mitigate foreign currency exchange exposure resulting from intercompany loans. Included in the consolidated statements of operations were net losses of \$0.6 million and \$0.2 million for the three and six months ended June 30, 2015 resulting from net losses on these foreign currency exchange option and forward contracts. The net impact on earnings resulting from gains and/or losses associated with these contracts during the three and six months ended June 30, 2014 was not significant. As of June 30, 2015, we had four foreign currency exchange option and forward contracts outstanding covering a notional amount of \$33.0 million. As of June 30, 2015, the fair value of forward contracts with two counterparties aggregated to a \$0.5 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets. As of December 31, 2014, the fair value of forward contracts with one counterparty aggregated to a \$0.8 million asset position, which was included in other current assets in the accompanying consolidated balance sheets. As of December 31, 2014, the fair value of forward contracts with one counterparty aggregated to a \$0.1 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets.

We also enter into loan commitments that relate to the origination of commercial mortgage loans that will be held for resale. FASB ASC Topic 815 requires that these commitments be recorded at their fair values as derivatives. Included in the consolidated statements of operations were net gains of \$6.6 million and \$10.6 million for the three and six months ended June 30, 2015, respectively, resulting from these loan commitments. The net impact on earnings resulting from gains and/or losses associated with these loan commitments during the three and six months ended June 30, 2014 was not significant. As of June 30, 2015, the fair value of such contracts with three counterparties aggregated to a \$6.6 million asset position, which was included in other current assets in the accompanying consolidated balance sheets. As of December 31, 2014, the fair value of such contracts with three counterparties aggregated to a \$2.4 million asset position, which was included in other current assets in the accompanying consolidated balance sheets.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**7. Investments in Unconsolidated Subsidiaries**

Investments in unconsolidated subsidiaries are accounted for under the equity method of accounting. Combined condensed financial information for these entities is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Global Investment Management:</b>				
Revenue	\$ 251,172	\$ 191,913	\$ 506,899	\$ 426,248
Operating loss	\$ (109,353)	\$ (150,306)	\$ (80,726)	\$ (321,899)
Net loss	\$ (188,240)	\$ (93,821)	\$ (231,196)	\$ (253,972)
<b>Development Services:</b>				
Revenue	\$ 10,316	\$ 8,399	\$ 19,575	\$ 22,835
Operating income	\$ 2,301	\$ 1,945	\$ 41,348	\$ 18,407
Net (loss) income	\$ (149)	\$ 128	\$ 37,487	\$ 15,211
<b>Other:</b>				
Revenue	\$ 45,979	\$ 46,377	\$ 73,566	\$ 71,582
Operating income	\$ 11,105	\$ 11,677	\$ 14,631	\$ 13,344
Net income	\$ 11,264	\$ 11,698	\$ 14,901	\$ 13,386
<b>Total:</b>				
Revenue	\$ 307,467	\$ 246,689	\$ 600,040	\$ 520,665
Operating loss	\$ (95,947)	\$ (136,684)	\$ (24,747)	\$ (290,148)
Net loss	\$ (177,125)	\$ (81,995)	\$ (178,808)	\$ (225,375)

Our Global Investment Management segment invests our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage and other professional services in connection with these real estate investments on an arm's length basis and earned revenues from these unconsolidated subsidiaries. We have also provided development, property management and brokerage services to certain of our unconsolidated subsidiaries in our Development Services segment on an arm's length basis and earned revenues from these unconsolidated subsidiaries.

**8. Real Estate and Other Assets Held for Sale and Related Liabilities**

Real estate and other assets held for sale include completed real estate projects or land for sale in their present condition that have met all of the held for sale criteria of the *Property, Plant and Equipment* Topic of the FASB ASC (Topic 360) and other assets directly related to such projects. Liabilities related to real estate and other assets held for sale have been included within other current liabilities in the accompanying consolidated balance sheets.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	June 30, 2015	December 31, 2014
<b>Assets:</b>		
Real estate held for sale (see Note 9)	\$ 1,899	\$ 3,840
Other current assets		5
 Total real estate and other assets held for sale	 1,899	 3,845
<b>Liabilities:</b>		
Accounts payable and accrued expenses	13	61
 Total liabilities related to real estate and other assets held for sale	 13	 61
 <b>Net real estate and other assets held for sale</b>	 <b>\$ 1,886</b>	 <b>\$ 3,784</b>

**9. Real Estate**

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

	June 30, 2015	December 31, 2014
Real estate included in assets held for sale (see Note 8)	\$ 1,899	\$ 3,840
Real estate under development (non-current)	13,868	4,630
Real estate held for investment (1)	21,217	37,129
 Total real estate (2)	 \$ 36,984	 \$ 45,599

- (1) Net of accumulated depreciation of \$10.1 million and \$12.3 million at June 30, 2015 and December 31, 2014, respectively.  
(2) Includes balances for lease intangibles of \$0.1 million and \$3.6 million at June 30, 2015 and December 31, 2014, respectively. We record lease intangibles upon acquiring real estate projects with in-place leases. The balances are shown net of amortization, which is recorded as an increase to, or a reduction of, rental income.

**10. Notes Payable on Real Estate**

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

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Current portion of notes payable on real estate	\$ 1,625	\$ 23,229
Notes payable on real estate, non-current portion	23,194	19,614
<b>Total notes payable on real estate</b>	<b>\$ 24,819</b>	<b>\$ 42,843</b>

At both June 30, 2015 and December 31, 2014, none of our notes payable on real estate was recourse to us, but was recourse to the single-purpose entity that held the real estate asset and was the primary obligor on the note payable.



**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**11. Debt**

We maintain credit facilities with third-party lenders, which we use for a variety of purposes. On March 28, 2013, we entered into a credit agreement (the 2013 Credit Agreement) with a syndicate of banks led by Credit Suisse AG (CS) as administrative and collateral agent, to completely refinance a previous credit agreement. On January 9, 2015, we entered into an amended and restated credit agreement (the 2015 Credit Agreement) with a syndicate of banks jointly led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and CS. In January 2015, we used the proceeds from the tranche A term loan facility under the 2015 Credit Agreement and from the December 2014 issuance of \$125.0 million of 5.25% senior notes due 2025, along with cash on hand, to pay off the prior tranche A and tranche B term loans and the balance on our revolving credit facility under the 2013 Credit Agreement.

The 2015 Credit Agreement is now an unsecured credit facility that is jointly and severally guaranteed by us and substantially all of our material domestic subsidiaries. As of June 30, 2015, the 2015 Credit Agreement provides for the following: (1) a \$2.6 billion revolving credit facility, which includes the capacity to obtain letters of credit and swingline loans and matures on January 9, 2020; and (2) a \$500.0 million tranche A term loan facility requiring quarterly principal payments, which began on June 30, 2015 and continue through maturity on January 9, 2020.

The revolving credit facility under the 2015 Credit Agreement allows for borrowings outside of the United States (U.S.), with a \$75.0 million sub-facility available to one of our Canadian subsidiaries, a \$100.0 million sub-facility available to one of our Australian subsidiaries and one of our New Zealand subsidiaries and a \$300.0 million sub-facility available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision in the 2015 Credit Agreement. Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either (1) the applicable fixed rate plus 0.85% to 1.00% or (2) the daily rate, in each case as determined by reference to our Credit Rating (as defined in the 2015 Credit Agreement). The 2015 Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment (whether used or unused) and as of June 30, 2015, no amounts were outstanding under our revolving credit facility other than letters of credit totaling \$2.0 million. These letters of credit, which reduce the amount we may borrow under the revolving credit facility, were primarily issued in the ordinary course of business. As of December 31, 2014, we had \$4.8 million of revolving credit facility principal outstanding under the 2013 Credit Agreement with a related weighted average annual interest rate of 1.4%, which was included in short-term borrowings in the accompanying consolidated balance sheets.

Borrowings under the tranche A term loan facility under the 2015 Credit Agreement as of June 30, 2015 bear interest, based on our option, on either (1) the applicable fixed rate plus 0.95% to 1.25% or (2) the daily rate plus 0.0% to 0.25%, in each case as determined by reference to our Credit Rating (as defined in the 2015 Credit Agreement). As of June 30, 2015, we had \$496.9 million of term loan facility principal outstanding under the 2015 Credit Agreement, which was included in the accompanying consolidated balance sheets. As of December 31, 2014, we had \$645.6 million of term loan facilities principal outstanding (including \$434.4 million of tranche A term loan facility and \$211.2 million of tranche B term loan facility) under the 2013 Credit Agreement, which are also included in the accompanying consolidated balance sheets.

Our 2015 Credit Agreement and the indentures governing our 5.00% senior notes and 5.25% senior notes contain restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our 2015

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Credit Agreement also requires us to maintain a minimum coverage ratio of EBITDA (as defined in the 2015 Credit Agreement) to total interest expense of 2.00x and a maximum leverage ratio of total debt less available cash to EBITDA (as defined in the 2015 Credit Agreement) of 4.25x as of the end of each fiscal quarter. Our coverage ratio of EBITDA to total interest expense was 13.74x for the trailing twelve months ended June 30, 2015 and our leverage ratio of total debt less available cash to EBITDA was 1.15x as of June 30, 2015.

**12. Commitments and Contingencies**

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. We believe that any losses in excess of the amounts accrued therefor as liabilities on our financial statements are unlikely to be significant, but litigation is inherently uncertain and there is the potential for a material adverse effect on our financial statements if one or more matters are resolved in a particular period in an amount materially in excess of what we anticipated.

In January 2008, CBRE Multifamily Capital, Inc. (CBRE MCI), a wholly-owned subsidiary of CBRE Capital Markets, entered into an agreement with Federal National Mortgage Association (Fannie Mae), under Fannie Mae's Delegated Underwriting and Servicing Lender Program (DUS Program), to provide financing for multifamily housing with five or more units. Under the DUS Program, CBRE MCI originates, underwrites, closes and services loans without prior approval by Fannie Mae, and in select cases, is subject to sharing up to one-third of any losses on loans originated under the DUS Program. CBRE MCI has funded loans subject to such loss sharing arrangements with unpaid principal balances of \$11.3 billion at June 30, 2015. Additionally, CBRE MCI has funded loans under the DUS Program that are not subject to loss sharing arrangements with unpaid principal balances of approximately \$51.6 million at June 30, 2015. CBRE MCI, under its agreement with Fannie Mae, must post cash reserves or other acceptable collateral under formulas established by Fannie Mae to provide for sufficient capital in the event losses occur. As of June 30, 2015 and December 31, 2014, CBRE MCI had a \$32.0 million and a \$29.0 million, respectively, letter of credit under this reserve arrangement, and had provided approximately \$19.9 million and \$16.8 million, respectively, of loan loss accruals. Fannie Mae's recourse under the DUS Program is limited to the assets of CBRE MCI, which totaled approximately \$267.0 million (including \$112.7 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at June 30, 2015.

We had outstanding letters of credit totaling \$41.4 million as of June 30, 2015, excluding letters of credit for which we have outstanding liabilities already accrued on our consolidated balance sheet related to our subsidiaries' outstanding reserves for claims under certain insurance programs as well as letters of credit related to operating leases. CBRE MCI's letter of credit totaling \$32.0 million referred to in the preceding paragraph represented the majority of the \$41.4 million outstanding letters of credit. The remaining letters of credit are primarily executed by us in the ordinary course of business and expire at varying dates through June 2016.

We had guarantees totaling \$19.9 million as of June 30, 2015, excluding guarantees related to pension liabilities, consolidated indebtedness and other obligations for which we have outstanding liabilities already accrued on our consolidated balance sheet, and excluding guarantees related to operating leases. The \$19.9 million primarily represents guarantees of obligations of unconsolidated subsidiaries, which expire at varying dates through December 2018, as well as various guarantees of management contracts in our operations overseas, which expire at the end of each of the respective agreements.

In addition, as of June 30, 2015, we had numerous non-recourse carveout, completion and budget guarantees relating to development projects. These guarantees are commonplace in our industry and are made by us in the ordinary course of our Development Services business. Non-recourse carveout guarantees generally require that

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

our project-entity borrower not commit specified improper acts, with us potentially liable for all or a portion of such entity's indebtedness or other damages suffered by the lender if those acts occur. Completion and budget guarantees generally require us to complete construction of the relevant project within a specified timeframe and/or within a specified budget, with us potentially being liable for costs to complete in excess of such timeframe or budget. However, we generally use guaranteed maximum price contracts with reputable, bondable general contractors with respect to projects for which we provide these guarantees. These contracts are intended to pass the risk to such contractors. While there can be no assurance, we do not expect to incur any material losses under these guarantees.

An important part of the strategy for our Global Investment Management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2.0% to 5.0% of the equity in a particular fund. As of June 30, 2015, we had aggregate commitments of \$20.7 million to fund future co-investments.

Additionally, an important part of our Development Services business strategy is to invest in unconsolidated real estate subsidiaries as a principal (in most cases co-investing with our clients). As of June 30, 2015, we had committed to fund \$20.6 million of additional capital to these unconsolidated subsidiaries.

**13. Income Per Share Information**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Computation of basic income per share attributable to CBRE Group, Inc. shareholders:</b>				
Net income attributable to CBRE Group, Inc. shareholders	\$ 125,029	\$ 105,464	\$ 217,966	\$ 173,127
Weighted average shares outstanding for basic income per share	331,999,935	330,133,061	331,988,489	330,084,525
Basic income per share attributable to CBRE Group, Inc. shareholders	\$ 0.38	\$ 0.32	\$ 0.66	\$ 0.52

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Computation of diluted income per share attributable to CBRE Group, Inc. shareholders:</b>				
Net income attributable to CBRE Group, Inc. shareholders	\$ 125,029	\$ 105,464	\$ 217,966	\$ 173,127
Weighted average shares outstanding for basic income per share	331,999,935	330,133,061	331,988,489	330,084,525
Dilutive effect of contingently issuable shares	3,913,275	3,360,227	3,678,940	3,120,170
Dilutive effect of stock options	241,314	425,332	259,197	429,647

## Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Weighted average shares outstanding for diluted income per share	336,154,524	333,918,620	335,926,626	333,634,342
Diluted income per share attributable to CBRE Group, Inc. shareholders	\$ 0.37	\$ 0.32	\$ 0.65	\$ 0.52

For both the three and six months ended June 30, 2015, 47,082 of contingently issuable shares were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

dilutive effect. For both the three and six months ended June 30, 2014, 10,503 of contingently issuable shares were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

For the three and six months ended June 30, 2014, options to purchase 7,314 shares of common stock were excluded from the computation of diluted earnings per share. These options were excluded because their inclusion would have had an anti-dilutive effect given that the options exercise prices were greater than the average market price of our common stock for such period.

**14. Pensions**

We have two contributory defined benefit pension plans in the United Kingdom (U.K.), which we acquired in connection with previous acquisitions. Our subsidiaries based in the U.K. maintain the plans to provide retirement benefits to existing and former employees participating in these plans. During 2007, we reached agreements with the active members of these plans to freeze future pension plan benefits. In return, the active members became eligible to enroll in the CBRE Group Personal Pension Plan, a defined contribution plan in the U.K.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest cost	\$ 3,686	\$ 4,477	\$ 7,427	\$ 8,908
Expected return on plan assets	(4,547)	(5,857)	(9,159)	(11,653)
Amortization of unrecognized net loss	1,016	668	2,047	1,330
Net periodic pension cost (benefit)	\$ 155	\$ (712)	\$ 315	\$ (1,415)

With respect to these pension plans, our historical policy has been to contribute annually to the plans, an amount to fund pension liabilities as actuarially determined and as required by applicable laws and regulations. Our contributions to these plans are invested by the plan trustee and, if these investments do not perform well in the future, we may be required to provide additional contributions to cover any pension underfunding. We contributed \$1.5 million and \$3.4 million to fund our pension plans during the three and six months ended June 30, 2015, respectively. We expect to contribute a total of \$6.3 million to fund our pension plans for the year ending December 31, 2015.

**15. Segments**

We report our operations through the following segments: (1) Americas, (2) EMEA, (3) Asia Pacific, (4) Global Investment Management and (5) Development Services.

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

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

## Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Our Global Investment Management business provides investment management services to clients seeking to generate returns and diversification through direct and indirect investments in real estate in North America, Europe and Asia Pacific.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Our Development Services business consists of real estate development and investment activities primarily in the U.S.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenue</b>				
Americas	\$ 1,434,489	\$ 1,235,720	\$ 2,662,105	\$ 2,257,401
EMEA	585,714	510,987	1,079,738	1,029,666
Asia Pacific	261,828	241,214	470,194	436,857
Global Investment Management	94,053	126,314	204,277	238,777
Development Services	14,422	12,571	26,695	24,947
	\$ 2,390,506	\$ 2,126,806	\$ 4,443,009	\$ 3,987,648

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>EBITDA</b>				
Americas	\$ 203,411	\$ 169,404	\$ 390,732	\$ 295,166
EMEA	47,810	27,369	55,388	50,734
Asia Pacific	28,154	23,765	38,704	32,006
Global Investment Management	16,304	38,129	51,184	66,392
Development Services	1,181	1,527	7,140	13,102
	\$ 296,860	\$ 260,194	\$ 543,148	\$ 457,400

EBITDA represents earnings before net interest expense, write-off of financing costs, income taxes, depreciation and amortization. EBITDA is not a recognized measurement under U.S. generally accepted accounting principles (GAAP) and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies.

We generally use EBITDA to evaluate operating performance and for other discretionary purposes, and we believe that this measure provides a more complete understanding of ongoing operations, enhances comparability of current results to prior periods and may be useful for investors to analyze our financial performance because EBITDA eliminates the impact of selected charges that may obscure trends in the underlying performance of our business. We further believe that investors may find EBITDA useful in evaluating our operating performance compared to that of other companies in our industry because EBITDA calculations generally eliminate the effects of acquisitions, which would include impairment charges of goodwill and intangibles created from acquisitions, the effects of financings and income taxes and the accounting effects of capital spending. EBITDA may vary for different companies for reasons unrelated to overall operating performance.

EBITDA is not intended to be a measure of free cash flow for our discretionary use because it does not consider certain cash requirements such as tax and debt service payments. EBITDA may also differ from the amount calculated under similarly titled definitions in our debt agreements, which amounts are further adjusted to reflect certain other cash and non-cash charges and are used by us to determine compliance with financial

covenants therein and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Americas</b>				
Net income attributable to CBRE Group, Inc.	\$ 96,857	\$ 92,304	\$ 192,059	\$ 162,770
Add:				
Depreciation and amortization	44,591	35,187	87,541	69,345
Interest expense (income), net	4,247	(226)	7,793	8,960
Write-off of financing costs			2,685	
Royalty and management service expense (income)	2,370	(2,843)	2,478	(3,707)
Provision for income taxes	55,346	44,982	98,176	57,798
<b>EBITDA</b>	<b>\$ 203,411</b>	<b>\$ 169,404</b>	<b>\$ 390,732</b>	<b>\$ 295,166</b>
<b>EMEA</b>				
Net income (loss) attributable to CBRE Group, Inc.	\$ 19,929	\$ (6,967)	\$ 1,443	\$ (13,957)
Add:				
Depreciation and amortization	14,607	15,319	29,399	32,782
Interest expense, net	11,375	17,184	22,822	24,343
Royalty and management service income	(4,975)	(3,070)	(6,192)	(6,955)
Provision for income taxes	6,874	4,903	7,916	14,521
<b>EBITDA</b>	<b>\$ 47,810</b>	<b>\$ 27,369</b>	<b>\$ 55,388</b>	<b>\$ 50,734</b>
<b>Asia Pacific</b>				
Net income attributable to CBRE Group, Inc.	\$ 10,949	\$ 8,246	\$ 13,608	\$ 4,002
Add:				
Depreciation and amortization	3,783	3,371	7,629	6,439
Interest expense, net	991	768	1,889	1,103
Royalty and management service expense	1,586	4,623	1,649	8,262
Provision for income taxes	10,845	6,757	13,929	12,200
<b>EBITDA</b>	<b>\$ 28,154</b>	<b>\$ 23,765</b>	<b>\$ 38,704</b>	<b>\$ 32,006</b>
<b>Global Investment Management</b>				
Net (loss) income attributable to CBRE Group, Inc.	\$ (2,688)	\$ 12,234	\$ 8,020	\$ 15,062
Add:				
Depreciation and amortization	7,061	8,452	14,672	17,818
Interest expense, net	7,818	8,745	15,502	17,586
Royalty and management service expense	1,019	1,290	2,065	2,400
Provision for income taxes	3,094	7,408	10,925	13,526

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

EBITDA	\$ 16,304	\$ 38,129	\$ 51,184	\$ 66,392
<b>Development Services</b>				
Net (loss) income attributable to CBRE Group, Inc.	\$ (18)	\$ (353)	\$ 2,836	\$ 5,250
Add:				
Depreciation and amortization	563	966	1,210	2,114
Interest expense, net	321	853	663	1,770
Provision for income taxes	315	61	2,431	3,968
EBITDA	\$ 1,181	\$ 1,527	\$ 7,140	\$ 13,102

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**16. Guarantor and Nonguarantor Financial Statements**

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of June 30, 2015 and December 31, 2014; condensed consolidating statements of operations for the three and six months ended June 30, 2015 and 2014; condensed consolidating statements of comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014; and condensed consolidating statements of cash flows for the six months ended June 30, 2015 and 2014 of (a) CBRE Group, Inc., as the parent, (b) CBRE Services, Inc. (CBRE), as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CBRE Group, Inc. on a consolidated basis; and

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

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

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING BALANCE SHEET**

AS OF JUNE 30, 2015

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 5	\$ 15,041	\$ 56,547	\$ 264,829	\$	\$ 336,422
Restricted cash			1,150	64,861		66,011
Receivables, net			593,479	1,011,141		1,604,620
Warehouse receivables (a)			628,013	122,803		750,816
Trading securities			101	68,452		68,553
Income taxes receivable	9,625		27,942	12,428		49,995
Prepaid expenses			59,910	94,550		154,460
Deferred tax assets, net			140,746	64,112		204,858
Real estate and other assets held for sale			1,058	841		1,899
Available for sale securities			1,129			1,129
Other current assets		7,077	59,473	37,643		104,193
<b>Total Current Assets</b>	<b>9,630</b>	<b>22,118</b>	<b>1,569,548</b>	<b>1,741,660</b>		<b>3,342,956</b>
Property and equipment, net			345,569	138,463		484,032
Goodwill			1,205,056	1,108,763		2,313,819
Other intangible assets, net			512,318	293,784		806,102
Investments in unconsolidated subsidiaries			185,767	36,772		222,539
Investments in consolidated subsidiaries	3,343,116	2,493,405	930,412		(6,766,933)	
Intercompany loan receivable		2,552,719	700,000		(3,252,719)	
Real estate under development			842	13,026		13,868
Real estate held for investment			5,675	15,542		21,217
Available for sale securities			56,304	1,819		58,123
Other assets, net		48,726	113,133	35,744		197,603
<b>Total Assets</b>	<b>\$ 3,352,746</b>	<b>\$ 5,116,968</b>	<b>\$ 5,624,624</b>	<b>\$ 3,385,573</b>	<b>\$ (10,019,652)</b>	<b>\$ 7,460,259</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$	\$ 19,664	\$ 209,244	\$ 535,616	\$	\$ 764,524
Compensation and employee benefits payable		626	346,696	230,645		577,967
Accrued bonus and profit sharing			207,347	213,761		421,108
<b>Short-term borrowings:</b>						
Warehouse lines of credit (a)			624,360	119,232		743,592
Other			16	879		895
<b>Total short-term borrowings</b>			<b>624,376</b>	<b>120,111</b>		<b>744,487</b>
Current maturities of long-term debt		12,500	1,380	14		13,894
Notes payable on real estate				1,625		1,625
Other current liabilities		4,807	60,873	5,489		71,169
<b>Total Current Liabilities</b>		<b>37,597</b>	<b>1,449,916</b>	<b>1,107,261</b>		<b>2,594,774</b>

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Long-Term Debt:							
5.00% senior notes			800,000				800,000
Senior term loans			484,375				484,375
5.25% senior notes			426,774				426,774
Other long-term debt					7		7
Intercompany loan payable	893,154		1,306,364	1,053,201		(3,252,719)	
<b>Total Long-Term Debt</b>	<b>893,154</b>	<b>1,711,149</b>	<b>1,306,364</b>	<b>1,053,208</b>		<b>(3,252,719)</b>	<b>1,711,156</b>
Notes payable on real estate				23,194			23,194
Deferred tax liabilities, net			106,438	60,856			167,294
Non-current tax liabilities			48,869				48,869
Pension liability				91,028			91,028
Other liabilities		25,106	219,632	75,678			320,416
<b>Total Liabilities</b>	<b>893,154</b>	<b>1,773,852</b>	<b>3,131,219</b>	<b>2,411,225</b>		<b>(3,252,719)</b>	<b>4,956,731</b>
Commitments and contingencies							
Equity:							
CBRE Group, Inc. Stockholders Equity	2,459,592	3,343,116	2,493,405	930,412		(6,766,933)	2,459,592
Non-controlling interests				43,936			43,936
<b>Total Equity</b>	<b>2,459,592</b>	<b>3,343,116</b>	<b>2,493,405</b>	<b>974,348</b>		<b>(6,766,933)</b>	<b>2,503,528</b>
<b>Total Liabilities and Equity</b>	<b>\$ 3,352,746</b>	<b>\$ 5,116,968</b>	<b>\$ 5,624,624</b>	<b>\$ 3,385,573</b>		<b>\$ (10,019,652)</b>	<b>\$ 7,460,259</b>

- (a) Although CBRE Capital Markets is included among our domestic subsidiaries that jointly and severally guarantee our 5.00% senior notes, 5.25% senior notes and our 2015 Credit Agreement, a substantial majority of warehouse receivables funded under TD Bank, N.A. (TD Bank), JP Morgan Chase Bank, N.A. (JP Morgan), Bank of America (BoFA), Capital One, N.A. (Capital One) and Fannie Mae ASAP lines of credit are pledged to TD Bank, JP Morgan, BoFA, Capital One and Fannie Mae, and accordingly, are not included as collateral for these notes or our other outstanding debt.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING BALANCE SHEET**

AS OF DECEMBER 31, 2014

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 5	\$ 18,262	\$ 374,103	\$ 348,514	\$	\$ 740,884
Restricted cash			630	27,460		28,090
Receivables, net			605,044	1,131,185		1,736,229
Warehouse receivables (a)			339,921	166,373		506,294
Trading securities			115	62,689		62,804
Income taxes receivable	19,443			10,603	(17,337)	12,709
Prepaid expenses			62,902	79,817		142,719
Deferred tax assets, net			140,761	65,105		205,866
Real estate and other assets held for sale				3,845		3,845
Available for sale securities			663			663
Other current assets		1,185	50,429	32,787		84,401
<b>Total Current Assets</b>	<b>19,448</b>	<b>19,447</b>	<b>1,574,568</b>	<b>1,928,378</b>	<b>(17,337)</b>	<b>3,524,504</b>
Property and equipment, net			361,899	136,027		497,926
Goodwill			1,196,418	1,137,403		2,333,821
Other intangible assets, net			493,058	309,302		802,360
Investments in unconsolidated subsidiaries			173,738	44,542		218,280
Investments in consolidated subsidiaries	3,019,410	2,433,913	914,895		(6,368,218)	
Intercompany loan receivable		2,453,215	700,000		(3,153,215)	
Real estate under development			828	3,802		4,630
Real estate held for investment			6,814	30,315		37,129
Available for sale securities			57,714	1,798		59,512
Other assets, net		33,581	98,139	37,223		168,943
<b>Total Assets</b>	<b>\$ 3,038,858</b>	<b>\$ 4,940,156</b>	<b>\$ 5,578,071</b>	<b>\$ 3,628,790</b>	<b>\$ (9,538,770)</b>	<b>\$ 7,647,105</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$	\$ 19,541	\$ 257,591	\$ 550,398	\$	\$ 827,530
Compensation and employee benefits payable		626	346,663	276,525		623,814
Accrued bonus and profit sharing			425,329	363,529		788,858
Income taxes payable			17,337		(17,337)	
<b>Short-term borrowings:</b>						
Warehouse lines of credit (a)			337,184	164,001		501,185
Revolving credit facility				4,840		4,840
Other			16	9		25
<b>Total short-term borrowings</b>			<b>337,200</b>	<b>168,850</b>		<b>506,050</b>
Current maturities of long-term debt		39,650	2,734	23		42,407
Notes payable on real estate				23,229		23,229
Other current liabilities		1,258	58,357	4,131		63,746

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Total Current Liabilities	61,075	1,445,211	1,386,685	(17,337)	2,875,634
<b>Long-Term Debt:</b>					
5.00% senior notes	800,000				800,000
Senior term loans	605,963				605,963
5.25% senior notes	426,813				426,813
Other long-term debt			26		26
Intercompany loan payable	779,028	1,350,424	1,023,763	(3,153,215)	
<b>Total Long-Term Debt</b>	<b>779,028</b>	<b>1,832,776</b>	<b>1,350,424</b>	<b>1,023,789</b>	<b>(3,153,215)</b>
Notes payable on real estate			19,614		19,614
Deferred tax liabilities, net		87,486	61,747		149,233
Non-current tax liabilities		45,936	67		46,003
Pension liability			92,923		92,923
Other liabilities	26,895	215,101	87,502		329,498
<b>Total Liabilities</b>	<b>779,028</b>	<b>1,920,746</b>	<b>3,144,158</b>	<b>2,672,327</b>	<b>(3,170,552)</b>
<b>Commitments and contingencies</b>					
<b>Equity:</b>					
CBRE Group, Inc. Stockholders' Equity	2,259,830	3,019,410	2,433,913	914,895	(6,368,218)
Non-controlling interests				41,568	41,568
<b>Total Equity</b>	<b>2,259,830</b>	<b>3,019,410</b>	<b>2,433,913</b>	<b>956,463</b>	<b>(6,368,218)</b>
<b>Total Liabilities and Equity</b>	<b>\$ 3,038,858</b>	<b>\$ 4,940,156</b>	<b>\$ 5,578,071</b>	<b>\$ 3,628,790</b>	<b>\$ (9,538,770)</b>

- (a) Although CBRE Capital Markets is included among our domestic subsidiaries that jointly and severally guarantee our 5.00% senior notes, 5.25% senior notes and our 2013 Credit Agreement, a substantial majority of warehouse receivables funded under BofA, JP Morgan, Capital One and Fannie Mae ASAP lines of credit are pledged to BofA, JP Morgan, Capital One and Fannie Mae, and accordingly, are not included as collateral for these notes or our other outstanding debt.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED JUNE 30, 2015**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	\$	\$	\$ 1,341,591	\$ 1,048,915	\$	\$ 2,390,506
Costs and expenses:						
Cost of services			849,131	638,843		1,487,974
Operating, administrative and other	12,362	11,698	301,412	284,686		610,158
Depreciation and amortization			39,282	31,323		70,605
Total costs and expenses	12,362	11,698	1,189,825	954,852		2,168,737
Gain on disposition of real estate			141	6,845		6,986
Operating (loss) income	(12,362)	(11,698)	151,907	100,908		228,755
Equity income (loss) from unconsolidated subsidiaries			8,591	(1,898)		6,693
Other income (loss)		1	335	(1,405)		(1,069)
Interest income		52,361	78,199	990	(130,148)	1,402
Interest expense		102,816	36,373	17,113	(130,148)	26,154
Royalty and management service expense (income)			236	(236)		
Income from consolidated subsidiaries	132,726	171,425	43,680		(347,831)	
Income before (benefit of) provision for income taxes	120,364	109,273	246,103	81,718	(347,831)	209,627
(Benefit of) provision for income taxes	(4,665)	(23,453)	74,678	29,914		76,474
Net income	125,029	132,726	171,425	51,804	(347,831)	133,153
Less: Net income attributable to non-controlling interests				8,124		8,124
Net income attributable to CBRE Group, Inc.	\$ 125,029	\$ 132,726	\$ 171,425	\$ 43,680	\$ (347,831)	\$ 125,029



**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED JUNE 30, 2014**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	\$	\$	\$ 1,168,544	\$ 958,262	\$	\$ 2,126,806
Costs and expenses:						
Cost of services			728,165	586,308		1,314,473
Operating, administrative and other	10,684	4,253	270,637	280,628		566,202
Depreciation and amortization			31,991	31,304		63,295
Total costs and expenses	10,684	4,253	1,030,793	898,240		1,943,970
Gain on disposition of real estate				23,170		23,170
Operating (loss) income	(10,684)	(4,253)	137,751	83,192		206,006
Equity income from unconsolidated subsidiaries			8,802	462		9,264
Other income		1	757	5,606		6,364
Interest income		44,115	531	615	(44,115)	1,146
Interest expense		26,168	22,688	23,729	(44,115)	28,470
Royalty and management service (income) expense			(4,779)	4,779		
Income from consolidated subsidiaries	112,163	103,575	16,540		(232,278)	
Income before (benefit of) provision for income taxes	101,479	117,270	146,472	61,367	(232,278)	194,310
(Benefit of) provision for income taxes	(3,985)	5,107	42,897	20,092		64,111
Net income	105,464	112,163	103,575	41,275	(232,278)	130,199
Less: Net income attributable to non-controlling interests				24,735		24,735
Net income attributable to CBRE Group, Inc.	\$ 105,464	\$ 112,163	\$ 103,575	\$ 16,540	\$ (232,278)	\$ 105,464

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2015**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	\$	\$	\$ 2,499,462	\$ 1,943,547	\$	\$ 4,443,009
Costs and expenses:						
Cost of services			1,566,774	1,211,977		2,778,751
Operating, administrative and other	25,506	(6,922)	585,999	537,350		1,141,933
Depreciation and amortization			75,809	64,642		140,451
Total costs and expenses	25,506	(6,922)	2,228,582	1,813,969		4,061,135
Gain on disposition of real estate			141	6,845		6,986
Operating (loss) income	(25,506)	6,922	271,021	136,423		388,860
Equity income (loss) from unconsolidated subsidiaries			23,912	(1,768)		22,144
Other income (loss)		1	1,259	(1,242)		18
Interest income		107,728	78,873	2,613	(185,515)	3,699
Interest expense		127,702	75,775	34,406	(185,515)	52,368
Write-off of financing costs		2,685				2,685
Royalty and management service (income) expense			(3,866)	3,866		
Income from consolidated subsidiaries	233,847	243,645	43,905		(521,397)	
Income before (benefit of) provision for income taxes	208,341	227,909	347,061	97,754	(521,397)	359,668
(Benefit of) provision for income taxes	(9,625)	(5,938)	103,416	45,524		133,377
Net income	217,966	233,847	243,645	52,230	(521,397)	226,291
Less: Net income attributable to non-controlling interests				8,325		8,325
Net income attributable to CBRE Group, Inc.	\$ 217,966	\$ 233,847	\$ 243,645	\$ 43,905	\$ (521,397)	\$ 217,966

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2014**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	\$	\$	\$ 2,125,182	\$ 1,862,466	\$	\$ 3,987,648
Costs and expenses:						
Cost of services			1,323,082	1,152,851		2,475,933
Operating, administrative and other	20,356	5,652	524,622	543,967		1,094,597
Depreciation and amortization			63,172	65,326		128,498
Total costs and expenses	20,356	5,652	1,910,876	1,762,144		3,699,028
Gain on disposition of real estate			6,697	23,170		29,867
Operating (loss) income	(20,356)	(5,652)	221,003	123,492		318,487
Equity income (loss) from unconsolidated subsidiaries			26,004	(1,740)		24,264
Other income		1	1,599	9,565		11,165
Interest income		96,385	1,131	1,587	(96,380)	2,723
Interest expense		50,770	64,714	37,381	(96,380)	56,485
Royalty and management service (income) expense			(6,637)	6,637		
Income from consolidated subsidiaries	185,892	160,830	13,703		(360,425)	
Income before (benefit of) provision for income taxes	165,536	200,794	205,363	88,886	(360,425)	300,154
(Benefit of) provision for income taxes	(7,591)	14,902	44,533	50,169		102,013
Net income	173,127	185,892	160,830	38,717	(360,425)	198,141
Less: Net income attributable to non-controlling interests				25,014		25,014
Net income attributable to CBRE Group, Inc.	\$ 173,127	\$ 185,892	\$ 160,830	\$ 13,703	\$ (360,425)	\$ 173,127

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2015**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Net income	\$ 125,029	\$ 132,726	\$ 171,425	\$ 51,804	\$ (347,831)	\$ 133,153
Other comprehensive income:						
Foreign currency translation gain				57,508		57,508
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		1,809				1,809
Unrealized gains on interest rate swaps, net of tax		263				263
Unrealized holding gains (losses) on available for sale securities, net of tax			258	(21)		237
Other, net			16			16
Total other comprehensive income		2,072	274	57,487		59,833
Comprehensive income	125,029	134,798	171,699	109,291	(347,831)	192,986
Less: Comprehensive income attributable to non-controlling interests				8,141		8,141
Comprehensive income attributable to CBRE Group, Inc.	\$ 125,029	\$ 134,798	\$ 171,699	\$ 101,150	\$ (347,831)	\$ 184,845

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2014**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Net income	\$ 105,464	\$ 112,163	\$ 103,575	\$ 41,275	\$ (232,278)	\$ 130,199
Other comprehensive (loss) income:						
Foreign currency translation gain				24,873		24,873
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		1,826				1,826
Unrealized losses on interest rate swaps and interest rate caps, net of tax		(2,810)				(2,810)
Unrealized holding losses on available for sale securities, net of tax			(1,208)	(86)		(1,294)
Other, net			(140)			(140)
Total other comprehensive (loss) income		(984)	(1,348)	24,787		22,455
Comprehensive income	105,464	111,179	102,227	66,062	(232,278)	152,654
Less: Comprehensive income attributable to non-controlling interests				24,738		24,738
Comprehensive income attributable to CBRE Group, Inc.	\$ 105,464	\$ 111,179	\$ 102,227	\$ 41,324	\$ (232,278)	\$ 127,916

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2015**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Net income	\$ 217,966	\$ 233,847	\$ 243,645	\$ 52,230	\$ (521,397)	\$ 226,291
Other comprehensive income (loss):						
Foreign currency translation loss				(47,912)		(47,912)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		3,604				3,604
Unrealized losses on interest rate swaps, net of tax		(2,511)				(2,511)
Unrealized holding (losses) gains on available for sale securities, net of tax			(29)	100		71
Other, net			18			18
Total other comprehensive income (loss)		1,093	(11)	(47,812)		(46,730)
Comprehensive income	217,966	234,940	243,634	4,418	(521,397)	179,561
Less: Comprehensive income attributable to non-controlling interests				8,309		8,309
Comprehensive income (loss) attributable to CBRE Group, Inc.	\$ 217,966	\$ 234,940	\$ 243,634	\$ (3,891)	\$ (521,397)	\$ 171,252

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE SIX MONTHS ENDED JUNE 30, 2014**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Net income	\$ 173,127	\$ 185,892	\$ 160,830	\$ 38,717	\$ (360,425)	\$ 198,141
Other comprehensive (loss) income:						
Foreign currency translation gain				36,446		36,446
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		3,626				3,626
Unrealized (losses) gains on interest rate swaps and interest rate caps, net of tax		(4,375)		61		(4,314)
Unrealized holding losses on available for sale securities, net of tax			(840)	(16)		(856)
Other, net			135			135
Total other comprehensive (loss) income		(749)	(705)	36,491		35,037
Comprehensive income	173,127	185,143	160,125	75,208	(360,425)	233,178
Less: Comprehensive income attributable to non-controlling interests				25,023		25,023
Comprehensive income attributable to CBRE Group, Inc.	\$ 173,127	\$ 185,143	\$ 160,125	\$ 50,185	\$ (360,425)	\$ 208,155

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2015**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	\$ 23,264	\$ (4,978)	\$ (6,437)	\$ (54,040)	\$ (42,191)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures			(25,039)	(25,349)	(50,388)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired			(91,413)	(3,562)	(94,975)
Contributions to unconsolidated subsidiaries			(26,662)	(909)	(27,571)
Distributions from unconsolidated subsidiaries			25,060	2,209	27,269
Additions to real estate held for investment				(1,411)	(1,411)
Proceeds from the sale of servicing rights and other assets			5,439	7,176	12,615
Increase in restricted cash			(520)	(38,158)	(38,678)
Purchase of available for sale securities			(23,453)		(23,453)
Proceeds from the sale of available for sale securities			24,563		24,563
Other investing activities, net			1,192		1,192
Net cash used in investing activities			(110,833)	(60,004)	(170,837)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from senior term loans		500,000			500,000
Repayment of senior term loans		(648,738)			(648,738)
Proceeds from revolving credit facility		831,000			831,000
Repayment of revolving credit facility		(831,000)		(4,512)	(835,512)
Repayment of notes payable on real estate held for investment				(776)	(776)
Proceeds from notes payable on real estate held for sale and under development				4,404	4,404
Proceeds from short-term borrowings, net				569	569
Shares repurchased for payment of taxes on equity awards	(5,113)				(5,113)
Proceeds from exercise of stock options	3,214				3,214
Incremental tax benefit from stock options exercised	1,078				1,078
Non-controlling interests contributions				4,405	4,405
Non-controlling interests distributions				(10,637)	(10,637)
Payment of financing costs		(22,225)			(22,225)
(Increase) decrease in intercompany receivables, net	(22,443)	172,720	(198,173)	47,896	
Other financing activities, net			(2,113)	(25)	(2,138)
Net cash (used in) provided by financing activities	(23,264)	1,757	(200,286)	41,324	(180,469)
Effect of currency exchange rate changes on cash and cash equivalents				(10,965)	(10,965)



Edgar Filing: CBRE GROUP, INC. - Form 10-Q

<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(3,221)	(317,556)	(83,685)	(404,462)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	5	18,262	374,103	348,514	740,884

<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 5	\$ 15,041	\$ 56,547	\$ 264,829	\$ 336,422
--	------	-----------	-----------	------------	------------

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid during the period for:

Interest	\$	\$ 42,137	\$ 83	\$ 903	\$ 43,123
Income tax payments, net	\$	\$	\$ 87,405	\$ 60,606	\$ 148,011

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2014**

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	\$ 20,007	\$ 49,743	\$ (160,250)	\$ (133,484)	\$ (223,984)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures			(35,954)	(17,651)	(53,605)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired			(5,230)	(24,547)	(29,777)
Contributions to unconsolidated subsidiaries			(23,059)	(2,381)	(25,440)
Distributions from unconsolidated subsidiaries			20,914	1,933	22,847
Net proceeds from disposition of real estate held for investment				68,183	68,183
Additions to real estate held for investment				(5,144)	(5,144)
Proceeds from the sale of servicing rights and other assets			5,810	7,010	12,820
Decrease in restricted cash		6,871	746	6,584	14,201
Purchase of available for sale securities			(41,466)		(41,466)
Proceeds from the sale of available for sale securities			35,056		35,056
Other investing activities, net			327		327
Net cash provided by (used in) investing activities		6,871	(42,856)	33,987	(1,998)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Repayment of senior term loans		(19,825)			(19,825)
Proceeds from revolving credit facility		1,088,000		66,568	1,154,568
Repayment of revolving credit facility		(932,928)		(29,387)	(962,315)
Proceeds from notes payable on real estate held for investment				3,575	3,575
Repayment of notes payable on real estate held for investment				(22,990)	(22,990)
Proceeds from notes payable on real estate held for sale and under development				4,885	4,885
Repayment of notes payable on real estate held for sale and under development				(32,984)	(32,984)
Proceeds from short-term borrowings, net				6,538	6,538
Shares repurchased for payment of taxes on equity awards	(15)				(15)
Proceeds from exercise of stock options	2,209				2,209
Incremental tax benefit from stock options exercised	2,158				2,158
Non-controlling interests contributions				574	574
Non-controlling interests distributions				(24,120)	(24,120)
Payment of financing costs				(104)	(104)
(Increase) decrease in intercompany receivables, net	(24,374)	(194,120)	200,344	18,150	
Other financing activities, net	15		(1,437)	(9)	(1,431)
Net cash (used in) provided by financing activities	(20,007)	(58,873)	198,907	(9,304)	110,723
Effect of currency exchange rate changes on cash and cash equivalents				5,213	5,213
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(2,259)	(4,199)	(103,588)	(110,046)

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>		5	11,585	91,244	389,078	491,912
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$	5	\$ 9,326	\$ 87,045	\$ 285,490	\$ 381,866
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>						
Cash paid during the period for:						
Interest	\$		\$ 47,204	\$ 355	\$ 3,655	\$ 51,214
Income tax payments, net	\$			\$ 128,176	\$ 54,139	\$ 182,315

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**17. Subsequent Events**

In July 2015, we entered into three interest rate swap agreements, all with effective dates in August 2015, and designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. These derivatives are used to hedge the variability of future interest payments due to changes in interest rates prior to us issuing fixed rate debt. The total notional amount of these interest rate swap agreements is \$300.0 million, all of which expires in August 2025, but will be cash settled at the earlier of the debt issuance date or a mandatory cash settlement date in late 2015.

On August 6, 2015, we entered into an underwriting agreement related to the public offering and sale of \$600.0 million in aggregate principal amount of 4.875% Senior Notes due 2026 (the 2026 Notes ), to be issued by our wholly-owned subsidiary, CBRE. The 2026 Notes will be guaranteed on a full and unconditional basis by us and each domestic subsidiary of CBRE that guarantees our 2015 Credit Agreement. We expect to issue the 2026 Notes on August 13, 2015, subject to customary closing conditions.

---

**Table of Contents**

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

This Quarterly Report on Form 10-Q for CBRE Group, Inc. for the three months ended June 30, 2015 represents an update to the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2014. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K as well as the unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

In addition, the statements and assumptions in this Quarterly Report on Form 10-Q that are not statements of historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended, including, in particular, statements about our plans, strategies and prospects as well as estimates of industry growth for the next quarter and beyond. For important information regarding these forward-looking statements, please see the discussion below under the caption Cautionary Note on Forward-Looking Statements.

**Overview**

We are the world's largest commercial real estate services and investment firm, based on 2014 revenue, with leading full-service operations in major metropolitan areas throughout the world. We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multifamily and other types of commercial real estate. As of December 31, 2014, excluding independent affiliates, we operated in over 370 offices worldwide, with more than 52,000 employees providing commercial real estate services under the CBRE brand name, investment management services under the CBRE Global Investors brand name and development services under the Trammell Crow brand name. Our business is focused on several competencies, including commercial property and corporate facilities management, tenant/occupier and property/agency leasing, capital markets solutions (property sales, commercial mortgage origination and servicing, and debt/structured finance), real estate investment management, valuation, development services and proprietary research. We generate revenue from management fees on a contractual and per-project basis, and from commissions on transactions. CBRE has been included in the S&P 500 since 2006 and the *Fortune* 500 since 2008 and was ranked #321 in 2015. *Fortune* has ranked us among the Most Admired Companies in the real estate sector for three consecutive years, including in 2015, and the International Association of Outsourcing Professionals has included us among the top 100 global outsourcing companies across all industries for nine consecutive years, including in 2015.

When you read our financial statements and the information included in this Quarterly Report, 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 that make it challenging to predict our future performance based on our historical results. We believe that the following material trends and uncertainties are crucial to an understanding of the variability in our historical earnings and cash flows and the potential for continued variability in the future:

***Macroeconomic Conditions***

Economic trends and government policies affect global and regional commercial real estate markets as well as our operations directly. These include: overall economic activity and employment growth, interest rate levels, the cost and availability of credit and the impact of tax and regulatory policies. Periods of economic weakness or recession, significantly rising interest rates, fiscal uncertainty, declining employment levels, decreasing demand for commercial real estate, falling real estate values, disruption to the global capital or credit markets, or the public perception that any of these events may occur, will negatively affect the performance of some of our business lines.

## **Table of Contents**

Compensation is our largest expense and the sales and leasing professionals in our advisory services business generally are paid on a commission and bonus basis that correlates with their revenue production. As a result, the negative effect of difficult market conditions on our operating margins is partially mitigated by the inherent variability of our compensation cost structure. In addition, when negative economic conditions have been particularly severe, we have moved decisively to lower operating expenses to improve financial performance, and then have restored certain expenses as economic conditions improved. Nevertheless, adverse global and regional economic trends could be significant risks to the performance of our operations and our financial condition.

Commercial real estate markets have recovered over the past several years in step with the steady improvement in global economic activity, most particularly in the United States. Since 2010, increased U.S. property sales activity has been sustained by gradually improving occupancy market conditions and increased demand for space as well as the availability of low-cost credit and increased capital flows into commercial real estate. During this time, U.S. leasing markets have been marked by falling vacancies, higher rents and increased transaction activity.

European economies began to emerge from recession in 2013, with most countries returning to positive, albeit very modest, economic growth. Reflecting the macro environment, leasing markets in most of Europe have been slow to recover, but have shown some modest improvement over the past year. On the other hand, property sales have increased significantly, with higher volumes occurring across much of Europe in 2014 and 2015.

In Asia Pacific, the real estate leasing and investment markets have been mixed amid slowing economic growth and as domestic capital is increasingly migrating to other parts of the world.

Real estate investment management and property development markets remain generally favorable as debt and equity capital flows into commercial real estate have been abundant. However, real estate securities markets have recently been adversely affected by investor concerns about rising interest rates.

The performance of our global sales, leasing, investment management and development services operations depends on sustained economic growth and strong job creation; stable, healthy global credit markets; and continued positive business and investor sentiment.

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

The Company 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. On March 31, 2015, CBRE, Inc., our wholly-owned subsidiary, entered into a Stock and Asset Purchase Agreement (the Purchase Agreement) with Johnson Controls, Inc. (JCI) to acquire JCI's Global WorkPlace Solutions (GWS) business. GWS is a market-leading provider of Integrated Facilities Management solutions for major occupiers of commercial real estate and has significant operations around the world. The purchase price is \$1.475 billion, payable in cash, with adjustments for working capital and other items. We expect to fund the acquisition through a combination of cash on hand and proceeds from the incurrence of debt. The closing of the transaction is subject to receipt of customary regulatory approvals and satisfaction of other customary closing conditions. The transaction is expected to close in the late third quarter or early fourth quarter of 2015.

Strategic in-fill acquisitions have also played a key role in expanding our geographic coverage and broadening and strengthening our service offerings. The companies we acquired have generally been quality regional or specialty firms that complement our existing platform within a region, or independent affiliates in which, in some cases, we held a small equity interest. During 2014, we completed 11 in-fill acquisitions, including our former independent affiliate companies in Thailand, Greenville, South Carolina, Louisville, Kentucky and Oklahoma City and Tulsa, Oklahoma, a commercial real estate service provider in Chicago, a New

## **Table of Contents**

York-based valuation and advisory business, a technical real estate consulting firm based in Germany, a consulting and advisory firm in the U.S. hotels sector, a shopping center management, leasing and consulting company in Switzerland and project management companies in Germany and Australia. During the six months ended June 30, 2015, we completed three in-fill acquisitions, including a Texas-based commercial real estate firm specializing in retail services, an energy management specialist based in Brookfield, Wisconsin and our former independent affiliate company in Columbia, South Carolina. In July 2015, we completed an acquisition of an advisory, consulting and research firm in Canada specializing in the Canadian hospitality and tourism industries.

Although we believe 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, in general, most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures, which include severance, lease termination, transaction and deferred financing costs, among others, and the charges and costs of integrating the acquired business and its financial and accounting systems into our own. In addition, our acquisition structures often include deferred and/or contingent purchase price payments in future periods that are subject to the passage of time or achievement of certain performance metrics and other conditions. As of June 30, 2015, we have accrued deferred consideration totaling \$74.1 million, which was included in accounts payable and accrued expenses and in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report on Form 10-Q.

### ***International Operations***

As we increase our international 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 Global Investment Management business has a significant amount of euro-denominated assets under management, or AUM, as well as associated revenue and earnings in Europe, which has recently seen more pronounced (and adverse) movement in the value of the euro against the U.S. dollar. Similarly, the GWS business will also have a significant amount of its revenue and earnings denominated in foreign currencies, such as the British pound sterling and euro. Fluctuations in foreign currency exchange rates have resulted and may continue to result in corresponding fluctuations in our AUM, revenue and earnings.

We generally seek to mitigate our exposure by balancing assets and liabilities that are denominated in the same currency. Fluctuations in foreign currency exchange rates affect reported amounts of our total assets and liabilities, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the exchange rate in effect on the respective balance sheet dates, and our total revenue and expenses, which are reflected in our financial statements as translated into U.S. dollars for each financial reporting period at the monthly average exchange rate. During the six months ended June 30, 2015, foreign currency translation had a \$243.2 million negative impact on our total revenue and a \$221.8 million positive impact on our total cost of services and operating, administrative and other expenses. In addition, from time to time we enter into foreign currency exchange contracts to attempt to mitigate some of our exposure to exchange rate changes related to particular transactions and to hedge risks associated with the translation of certain foreign currencies into U.S. dollars.

**Table of Contents**

During the six months ended June 30, 2015, approximately 42% of our business was transacted in non-U.S. dollar currencies, the majority of which included the Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese yuan, euro, Indian rupee, Japanese yen and Singapore dollar. Although we operate globally, we report our results in U.S. dollars. As a result, the strengthening or weakening of the U.S. dollar may positively or negatively impact our reported results. The following table sets forth our revenue derived from our most significant currencies (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
United States dollar	\$ 1,381,858	57.8%	\$ 1,200,871	56.5%	\$ 2,586,253	58.2%	\$ 2,188,759	54.9%
British pound sterling	400,383	16.7%	353,328	16.6%	758,263	17.1%	725,428	18.2%
Euro	188,571	7.9%	173,772	8.2%	343,339	7.7%	346,126	8.7%
Australian dollar	94,464	4.0%	98,684	4.6%	164,214	3.7%	162,648	4.1%
Canadian dollar	71,272	3.0%	82,552	3.9%	132,170	3.0%	150,307	3.8%
Indian rupee	41,995	1.8%	32,615	1.5%	76,120	1.7%	61,943	1.5%
Japanese yen	34,338	1.4%	37,921	1.8%	64,605	1.5%	72,449	1.8%
Chinese yuan	33,019	1.4%	25,883	1.2%	62,569	1.4%	52,160	1.3%
Singapore dollar	22,393	0.9%	21,360	1.0%	40,120	0.9%	44,071	1.1%
Brazilian real	15,813	0.7%	15,337	0.7%	27,267	0.6%	28,077	0.7%
Other currencies	106,400	4.4%	84,483	4.0%	188,089	4.2%	155,680	3.9%
Total revenue	\$ 2,390,506	100.0%	\$ 2,126,806	100.0%	\$ 4,443,009	100.0%	\$ 3,987,648	100.0%

We estimate that had the British pound sterling-to-U.S. dollar exchange rates been 10% higher during the six months ended June 30, 2015, the net impact would have been an increase in pre-tax income of \$2.8 million. This hypothetical calculation estimates the impact of translating results into U.S. dollars, without giving effect to our hedging activities, and does not include an estimate of the impact a 10% change in the U.S. dollar against other currencies would have had on our foreign operations.

Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. Our international operations also are subject to, among other things, political instability and changing regulatory environments, which affects the currency markets and which as a result may adversely affect our future financial condition and results of operations. We routinely monitor these risks and related costs and evaluate the appropriate amount of oversight to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that we believe to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, our consolidation policy, goodwill and other intangible assets, real estate and income taxes can be found in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to these policies as of June 30, 2015.



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

The following table sets forth items derived from our consolidated statements of operations for the three and six months ended June 30, 2015 and 2014, presented in dollars and as a percentage of revenue (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Revenue	\$ 2,390,506	100.0%	\$ 2,126,806	100.0%	\$ 4,443,009	100.0%	\$ 3,987,648	100.0%
Costs and expenses:								
Cost of services	1,487,974	62.2	1,314,473	61.8	2,778,751	62.5	2,475,933	62.1
Operating, administrative and other	610,158	25.5	566,202	26.6	1,141,933	25.7	1,094,597	27.4
Depreciation and amortization	70,605	3.0	63,295	3.0	140,451	3.2	128,498	3.3
Total costs and expenses	2,168,737	90.7	1,943,970	91.4	4,061,135	91.4	3,699,028	92.8
Gain on disposition of real estate	6,986	0.3	23,170	1.1	6,986	0.2	29,867	0.8
Operating income	228,755	9.6	206,006	9.7	388,860	8.8	318,487	8.0
Equity income from unconsolidated subsidiaries	6,693	0.3	9,264	0.4	22,144	0.5	24,264	0.6
Other (loss) income	(1,069)	(0.1)	6,364	0.3	18		11,165	0.3
Interest income	1,402	0.1	1,146		3,699	0.1	2,723	
Interest expense	26,154	1.1	28,470	1.3	52,368	1.2	56,485	1.4
Write-off of financing costs					2,685	0.1		
Income before provision for income taxes	209,627	8.8	194,310	9.1	359,668	8.1	300,154	7.5
Provision for income taxes	76,474	3.2	64,111	3.0	133,377	3.0	102,013	2.5
Net income	133,153	5.6	130,199	6.1	226,291	5.1	198,141	5.0
Less: Net income attributable to non-controlling interests	8,124	0.4	24,735	1.1	8,325	0.2	25,014	0.7
Net income attributable to CBRE Group, Inc.	\$ 125,029	5.2%	\$ 105,464	5.0%	\$ 217,966	4.9%	\$ 173,127	4.3%
EBITDA	\$ 296,860	12.4%	\$ 260,194	12.2%	\$ 543,148	12.2%	\$ 457,400	11.5%
EBITDA, as adjusted	\$ 303,780	12.7%	\$ 262,761	12.4%	\$ 550,509	12.4%	\$ 461,530	11.6%

EBITDA represents earnings before net interest expense, write-off of financing costs, income taxes, depreciation and amortization. Amounts shown for EBITDA, as adjusted (which we also refer to as Normalized EBITDA), further remove (from EBITDA) the impact of certain cash and non-cash charges related to acquisitions, as well as certain carried interest incentive compensation expense. Neither EBITDA nor EBITDA, as adjusted, is a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use them in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of these measures may not be comparable to similarly titled measures of other companies.

We generally use these non-GAAP financial measures to evaluate operating performance and for other discretionary purposes, and we believe that these measures provide a more complete understanding of ongoing operations, enhance comparability of current results to prior periods and may be useful for investors to analyze our financial performance because they eliminate the impact of selected charges that may obscure trends in the underlying performance of our business. We further believe that investors may find these measures useful in evaluating our operating performance compared to that of other companies in our industry because their calculations generally eliminate the effects of acquisitions, which would include impairment charges of goodwill and intangibles created from acquisitions, the effects of financings and income taxes and the accounting effects of capital spending. EBITDA and EBITDA, as adjusted, may vary for different companies for reasons unrelated to overall

operating performance.

**Table of Contents**

These measures are not intended to be measures of free cash flow for our discretionary use because they do not consider certain cash requirements such as tax and debt service payments. These measures may also differ from the amounts calculated under similarly titled definitions in our debt agreements, which amounts are further adjusted to reflect certain other cash and non-cash charges and are used by us to determine compliance with financial covenants therein and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments. We also use EBITDA, as adjusted, as a significant component when measuring our operating performance under our employee incentive compensation programs.

EBITDA and EBITDA, as adjusted, are calculated as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to CBRE Group, Inc.	\$ 125,029	\$ 105,464	\$ 217,966	\$ 173,127
Add:				
Depreciation and amortization	70,605	63,295	140,451	128,498
Interest expense	26,154	28,470	52,368	56,485
Write-off of financing costs			2,685	
Provision for income taxes	76,474	64,111	133,377	102,013
Less:				
Interest income	1,402	1,146	3,699	2,723
<b>EBITDA</b>	<b>\$ 296,860</b>	<b>\$ 260,194</b>	<b>\$ 543,148</b>	<b>\$ 457,400</b>
Adjustments:				
Integration and other acquisition related costs	4,805		8,018	
Carried interest incentive compensation to match current period revenue	2,115	2,567	(657)	4,130
<b>EBITDA, as adjusted</b>	<b>\$ 303,780</b>	<b>\$ 262,761</b>	<b>\$ 550,509</b>	<b>\$ 461,530</b>

**Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014**

We reported consolidated net income of \$125.0 million for the three months ended June 30, 2015 on revenue of \$2.4 billion as compared to consolidated net income of \$105.5 million on revenue of \$2.1 billion for the three months ended June 30, 2014.

Our revenue on a consolidated basis for the three months ended June 30, 2015 increased by \$263.7 million, or 12.4%, as compared to the three months ended June 30, 2014. This increase was primarily driven by higher worldwide property, facilities and project management fees (up 19.5%), as well as increased sales (up 31.7%) and leasing (up 14.7%) activity. An increase in global appraisal revenue (up 34.9%) and commercial mortgage brokerage activity in our Americas segment (up 44.3%) also contributed to the positive variance. Foreign currency translation had a \$149.6 million negative impact on total revenue during the three months ended June 30, 2015, primarily driven by weakness in the Australian dollar, British pound sterling, Canadian dollar, euro and Japanese yen, during the three months ended June 30, 2015 versus the three months ended June 30, 2014.

Our cost of services on a consolidated basis increased by \$173.5 million, or 13.2%, during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. This increase was primarily due to higher costs associated with our global property and facilities management businesses. In addition, our sales professionals generally are paid on a commission basis, which substantially correlates with our transaction revenue performance. Accordingly, the increase in sales and lease transaction revenue led to a corresponding increase in commission accruals. Higher professional salaries and related costs due to increased headcount (in part due to in-fill acquisitions) and higher professional bonuses (particularly in the United Kingdom due to improved results) also contributed to the increase. These increases were partially offset by foreign currency translation, which had an \$89.0 million positive impact on cost of services during the three months ended

---

**Table of Contents**

June 30, 2015. Cost of services as a percentage of revenue increased from 61.8% for the three months ended June 30, 2014 to 62.2% for the three months ended June 30, 2015, primarily attributable to our mix of revenue, with a higher composition of revenue being non-commissionable in the prior-year period.

Our operating, administrative and other expenses on a consolidated basis increased by \$44.0 million, or 7.8%, during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The increase was primarily due to higher worldwide payroll-related costs (including bonuses) attributable to increased headcount and improved results as well as higher marketing and travel costs in the current year. These increases were partially mitigated by foreign currency movement, including a \$44.1 million positive impact from foreign currency translation during the three months ended June 30, 2015, partly offset by an increase of \$11.3 million in foreign currency transaction losses, some of which related to hedging activities. Operating expenses as a percentage of revenue decreased from 26.6% for the three months ended June 30, 2014 to 25.5% for the three months ended June 30, 2015, reflecting the operating leverage inherent in our business.

Our depreciation and amortization expense on a consolidated basis increased by \$7.3 million, or 11.5%, during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. This increase was primarily attributable to higher depreciation expense driven by an increase in technology-related capital expenditures. Also contributing to the variance was an increase in amortization expense associated with mortgage servicing rights.

Our gain on disposition of real estate on a consolidated basis was \$7.0 million for the three months ended June 30, 2015 compared to \$23.2 million for the three months ended June 30, 2014. These gains resulted from activity within our Global Investment Management and Development Services segments.

Our equity income from unconsolidated subsidiaries on a consolidated basis decreased by \$2.6 million, or 27.8%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by lower equity earnings reported in our Global Investment Management and Development Services segments.

Our other loss on a consolidated basis was \$1.1 million for the three months ended June 30, 2015 compared to other income of \$6.4 million for the three months ended June 30, 2014. This activity primarily relates to net realized and unrealized losses and gains attributable to co-investments in our real estate securities business.

Our consolidated interest income was \$1.4 million for the three months ended June 30, 2015 versus \$1.1 million for the three months ended June 30, 2014.

Our consolidated interest expense decreased by \$2.3 million, or 8.1%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. In January 2015, we entered into an amended and restated credit agreement with more favorable interest rate spreads than under our prior credit agreement, which contributed to the positive variance. Additionally, a decrease in notes payable on real estate also led to lower interest expense in the current year.

Our provision for income taxes on a consolidated basis was \$76.5 million for the three months ended June 30, 2015 as compared to \$64.1 million for the three months ended June 30, 2014. This increase was driven by the significant growth in pre-tax income during the three months ended June 30, 2015. Our effective tax rate from continuing operations, after adjusting pre-tax income to remove the portion attributable to non-controlling interests, was relatively consistent at 38.0% for the three months ended June 30, 2015 versus 37.8% for the three months ended June 30, 2014.

Our net income attributable to non-controlling interests on a consolidated basis was \$8.1 million for the three months ended June 30, 2015 as compared to \$24.7 million for the three months ended June 30, 2014. This activity primarily reflects our non-controlling interests' share of income within our Global Investment Management and Development Services segments.

---

**Table of Contents**

**Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014**

We reported consolidated net income of \$218.0 million for the six months ended June 30, 2015 on revenue of \$4.4 billion as compared to consolidated net income of \$173.1 million on revenue of \$4.0 billion for the six months ended June 30, 2014.

Our revenue on a consolidated basis for the six months ended June 30, 2015 increased by \$455.4 million, or 11.4%, as compared to the six months ended June 30, 2014. This increase was primarily driven by higher worldwide property, facilities and project management fees (up 16.9%), as well as increased sales (up 27.0%) and leasing (up 13.9%) activity. An increase in global appraisal revenue (up 27.7%) and commercial mortgage brokerage activity in our Americas segment (up 43.7%) also contributed to the positive variance. Foreign currency translation had a \$243.2 million negative impact on total revenue during the six months ended June 30, 2015, primarily driven by weakness in the Australian dollar, British pound sterling, Canadian dollar, euro and Japanese yen, during the six months ended June 30, 2015 versus the six months ended June 30, 2014.

Our cost of services on a consolidated basis increased by \$302.8 million, or 12.2%, during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. This increase was primarily due to higher costs associated with our global property and facilities management businesses. In addition, as previously mentioned, our sales professionals generally are paid on a commission basis, which substantially correlates with our transaction revenue performance. Accordingly, the increase in sales and lease transaction revenue led to a corresponding increase in commission accruals. Higher professional salaries and related costs due to increased headcount (in part due to in-fill acquisitions) and higher professional bonuses (particularly in the United Kingdom due to improved results) also contributed to the increase. These increases were partially offset by foreign currency translation, which had a \$148.0 million positive impact on cost of services during the six months ended June 30, 2015. Cost of services as a percentage of revenue increased from 62.1% for the six months ended June 30, 2014 to 62.5% for the six months ended June 30, 2015, primarily attributable to our mix of revenue, with a higher composition of revenue being non-commissionable in the prior-year period.

Our operating, administrative and other expenses on a consolidated basis increased by \$47.3 million, or 4.3%, during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The increase was primarily due to higher worldwide payroll-related costs (including bonuses) attributable to increased headcount and improved results as well as higher marketing and travel costs. These increases were partially mitigated by foreign currency movement, including a \$73.8 million positive impact from foreign currency translation during the six months ended June 30, 2015 and a \$6.6 million improvement in foreign currency transaction activity over the prior year, some of which related to hedging activities. Operating expenses as a percentage of revenue decreased from 27.4% for the six months ended June 30, 2014 to 25.7% for the six months ended June 30, 2015, reflecting the operating leverage inherent in our business.

Our depreciation and amortization expense on a consolidated basis increased by \$12.0 million, or 9.3%, during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. This increase was primarily attributable to higher depreciation expense driven by an increase in technology-related capital expenditures. Also contributing to the variance was an increase in amortization expense associated with mortgage servicing rights.

Our gain on disposition of real estate on a consolidated basis was \$7.0 million for the six months ended June 30, 2015 compared to \$29.9 million for the six months ended June 30, 2014. These gains resulted from activity within our Global Investment Management and Development Services segments.

Our equity income from unconsolidated subsidiaries on a consolidated basis decreased by \$2.1 million, or 8.7%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by lower equity earnings reported in our Development Services segment.

## **Table of Contents**

Our other income on a consolidated basis was negligible for the six months ended June 30, 2015 and \$11.2 million for the six months ended June 30, 2014. This activity primarily relates to net realized and unrealized gains and losses attributable to co-investments in our real estate securities business.

Our consolidated interest income was \$3.7 million for the six months ended June 30, 2015 versus \$2.7 million for the six months ended June 30, 2014.

Our consolidated interest expense decreased by \$4.1 million, or 7.3%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. In January 2015, we entered into an amended and restated credit agreement with more favorable interest rate spreads than under our prior credit agreement, which contributed to the positive variance. Additionally, a decrease in notes payable on real estate also led to lower interest expense in the current year.

Our write-off of financing costs on a consolidated basis was \$2.7 million for the six months ended June 30, 2015. These costs included the write-off of \$1.7 million of unamortized deferred financing costs associated with our 2013 Credit Agreement and \$1.0 million of fees incurred in connection with our 2015 Credit Agreement. See Note 11 of the Notes to Consolidated Financial Statements set forth in Item 1 of this Quarterly Report for more information on such credit agreements.

Our provision for income taxes on a consolidated basis was \$133.4 million for the six months ended June 30, 2015 as compared to \$102.0 million for the six months ended June 30, 2014. This increase was driven by the significant growth in pre-tax income during the six months ended June 30, 2015. Our effective tax rate from continuing operations, after adjusting pre-tax income to remove the portion attributable to non-controlling interests, increased to 38.0% for the six months ended June 30, 2015 as compared to 37.1% for the six months ended June 30, 2014. This increase was largely due to an unfavorable change in our mix, with 68% of our earnings, after removing the portion attributable to non-controlling interests, forecasted from the United States for 2015 as of June 30, 2015 as compared to 65% forecasted for 2014 as of June 30, 2014, partially due to lower operating performance in Europe. Additionally, during the six months ended June 30, 2014, we reversed accrued taxes, interest and penalties related to settled positions, which had a favorable impact on last year's effective tax rate for such period.

Our net income attributable to non-controlling interests on a consolidated basis was \$8.3 million for the six months ended June 30, 2015 as compared to \$25.0 million for the six months ended June 30, 2014. This activity primarily reflects our non-controlling interests' share of income within our Global Investment Management and Development Services segments.

## **Segment Operations**

We report our operations through the following segments: (1) Americas, (2) EMEA, (3) Asia Pacific, (4) Global Investment Management and (5) Development Services. The Americas consists of operations located in the United States, Canada and key markets in Latin America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. The Global Investment Management business consists of investment management operations in North America, Europe and Asia Pacific. The Development Services business consists of real estate development and investment activities primarily in the United States.

**Table of Contents**

The following table summarizes our revenue, costs and expenses and operating income (loss) by our Americas, EMEA, Asia Pacific, Global Investment Management and Development Services operating segments for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
<b>Americas</b>								
Revenue	\$ 1,434,489	100.0%	\$ 1,235,720	100.0%	\$ 2,662,105	100.0%	\$ 2,257,401	100.0%
Costs and expenses:								
Cost of services	924,509	64.4	802,311	64.9	1,711,626	64.3	1,462,581	64.8
Operating, administrative and other	312,471	21.8	270,477	21.9	570,633	21.4	511,144	22.6
Depreciation and amortization	44,591	3.1	35,187	2.9	87,541	3.3	69,345	3.1
Operating income	\$ 152,918	10.7%	\$ 127,745	10.3%	\$ 292,305	11.0%	\$ 214,331	9.5%
EBITDA (1)	\$ 203,411	14.2%	\$ 169,404	13.7%	\$ 390,732	14.7%	\$ 295,166	13.1%
<b>EMEA</b>								
Revenue	\$ 585,714	100.0%	\$ 510,987	100.0%	\$ 1,079,738	100.0%	\$ 1,029,666	100.0%
Costs and expenses:								
Cost of services	400,947	68.5	360,190	70.5	763,450	70.7	731,737	71.1
Operating, administrative and other	137,628	23.5	123,571	24.2	262,523	24.3	248,104	24.1
Depreciation and amortization	14,607	2.4	15,319	3.0	29,399	2.7	32,782	3.1
Operating income	\$ 32,532	5.6%	\$ 11,907	2.3%	\$ 24,366	2.3%	\$ 17,043	1.7%
EBITDA (1)	\$ 47,810	8.2%	\$ 27,369	5.4%	\$ 55,388	5.1%	\$ 50,734	4.9%
<b>Asia Pacific</b>								
Revenue	\$ 261,828	100.0%	\$ 241,214	100.0%	\$ 470,194	100.0%	\$ 436,857	100.0%
Costs and expenses:								
Cost of services	162,518	62.1	151,972	63.0	303,675	64.6	281,615	64.5
Operating, administrative and other	71,190	27.2	65,487	27.1	127,849	27.2	123,236	28.2
Depreciation and amortization	3,783	1.4	3,371	1.4	7,629	1.6	6,439	1.4
Operating income	\$ 24,337	9.3%	\$ 20,384	8.5%	\$ 31,041	6.6%	\$ 25,567	5.9%
EBITDA (1)	\$ 28,154	10.8%	\$ 23,765	9.9%	\$ 38,704	8.2%	\$ 32,006	7.3%
<b>Global Investment Management</b>								
Revenue	\$ 94,053	100.0%	\$ 126,314	100.0%	\$ 204,277	100.0%	\$ 238,777	100.0%
Costs and expenses:								
Operating, administrative and other	74,334	79.0	93,960	74.4	148,252	72.6	178,958	74.9
Depreciation and amortization	7,061	7.5	8,452	6.6	14,672	7.2	17,818	7.5
Gain on disposition of real estate			23,028	18.2			23,028	9.6
Operating income	\$ 12,658	13.5%	\$ 46,930	37.2%	\$ 41,353	20.2%	\$ 65,029	27.2%
EBITDA (1)	\$ 16,304	17.3%	\$ 38,129	30.2%	\$ 51,184	25.1%	\$ 66,392	27.8%
<b>Development Services</b>								
Revenue	\$ 14,422	100.0%	\$ 12,571	100.0%	\$ 26,695	100.0%	\$ 24,947	100.0%
Costs and expenses:								
Operating, administrative and other	14,535	100.8	12,707	101.1	32,676	122.4	33,155	132.9
Depreciation and amortization	563	3.9	966	7.6	1,210	4.6	2,114	8.5
Gain on disposition of real estate	6,986	48.5	142	1.1	6,986	26.2	6,839	27.4

## Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Operating income (loss)	\$	6,310	43.8%	\$	(960)	(7.6)%	\$	(205)	(0.8)%	\$	(3,483)	(14.0)%
EBITDA (1)	\$	1,181	8.2%	\$	1,527	12.1%	\$	7,140	26.7%	\$	13,102	52.5%

- (1) See Note 15 of the Notes to Consolidated Financial Statements (Unaudited) for a reconciliation of segment EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP (which is segment net income (loss) attributable to CBRE Group, Inc.), as well as for an explanation of this non-GAAP financial measure.



---

**Table of Contents****Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014****Americas**

Revenue increased by \$198.8 million, or 16.1%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. This improvement was primarily driven by improved sales, leasing, commercial mortgage brokerage and appraisal activity, as well as higher property, facilities and project management fees. Foreign currency translation had an \$18.7 million negative impact on total revenue during the three months ended June 30, 2015, primarily driven by weakness in the Canadian dollar when converting to U.S. dollars during the three months ended June 30, 2015 versus the three months ended June 30, 2014.

Cost of services increased by \$122.2 million, or 15.2%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily due to increased commission expense resulting from higher sales and lease transaction revenue. Higher costs associated with our property and facilities management businesses as well as higher professional salaries and related costs due to increased headcount (in part due to in-fill acquisitions) also contributed to the increase. Foreign currency translation had an \$11.5 million positive impact on cost of services during the three months ended June 30, 2015. Cost of services as a percentage of revenue decreased to 64.4% for the three months ended June 30, 2015 from 64.9% for the three months ended June 30, 2014, primarily due to an increase in lending activity with Government Sponsored Entities, or GSEs, with no corresponding cost of services associated with that revenue stream. Excluding such activity, cost of services was relatively consistent at 65.7% for the three months ended June 30, 2015 versus 65.6% for the three months ended June 30, 2014.

Operating, administrative and other expenses increased by \$42.0 million, or 15.5%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The increase was primarily driven by higher payroll-related costs (including bonuses) as well as increased marketing and travel costs, all partly due to in-fill acquisitions. An increase of \$7.9 million in foreign currency transaction losses, which were primarily related to hedging activities, was largely offset by a \$5.0 million positive impact from foreign currency translation during the three months ended June 30, 2015.

**EMEA**

Revenue increased by \$74.7 million, or 14.6%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The increase was broad-based, as every major business line showed growth, led by sales activity. Notable strength was evident in Germany, Spain and the United Kingdom. The increase in revenue was partially muted by foreign currency translation, which had a \$90.6 million negative impact on total revenue during the three months ended June 30, 2015, primarily driven by weakness in the British pound sterling and euro when converting to U.S. dollars during the three months ended June 30, 2015 versus the three months ended June 30, 2014.

Cost of services increased by \$40.8 million, or 11.3%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. This increase was primarily driven by higher professional salaries due to investments in personnel and higher professional bonuses in the United Kingdom due to improved results. Higher costs associated with our property and facilities management businesses also contributed to the increase in the current year. These increases were partially masked by foreign currency translation, which had a \$59.8 million positive impact on cost of services during the three months ended June 30, 2015. Cost of services as a percentage of revenue decreased to 68.5% for the three months ended June 30, 2015 from 70.5% for the three months ended June 30, 2014, primarily driven by higher transaction revenue in the current year in certain countries that have a fixed compensation structure.

Operating, administrative and other expenses increased by \$14.1 million, or 11.4%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by higher payroll-related costs (including bonuses), as well as increased marketing and travel costs. These increases were partially offset by foreign currency translation, which had a \$23.3 million positive impact on total operating expenses during the three months ended June 30, 2015.

**Table of Contents****Asia Pacific**

Revenue increased by \$20.6 million, or 8.5%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, reflecting improved overall performance in several countries, most notably in Australia, Greater China and India, particularly in property, facilities and project management activity. Contributions from our acquisition of our former affiliate in Thailand in June 2014 also added to the current year increase. The overall increase was partially muted by foreign currency translation, which had a \$31.1 million negative impact on total revenue during the three months ended June 30, 2015, primarily driven by weakness in the Australian dollar and Japanese yen when converting to U.S. dollars during the three months ended June 30, 2015 versus the three months ended June 30, 2014.

Cost of services increased by \$10.5 million, or 6.9%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, driven by higher costs associated with our property and facilities management businesses. Increased commission expense resulting from higher transaction revenue as well as higher professional salaries and related costs (in part due to the acquisition of our former affiliate in Thailand in June 2014) also contributed to the increase in the current year. These increases were partially offset by foreign currency translation, which had a \$17.7 million positive impact on cost of services during the three months ended June 30, 2015. Cost of services as a percentage of revenue decreased to 62.1% for the three months ended June 30, 2015 from 63.0% for the three months ended June 30, 2014, primarily driven by a concentration of commissions among higher producing professionals in Australia in the prior year, which did not recur in the current year.

Operating, administrative and other expenses increased by \$5.7 million, or 8.7%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by higher payroll-related costs (including bonuses), as well as increased marketing and travel costs (in part due to the acquisition of our former affiliate in Thailand in June 2014). Foreign currency translation had an \$8.6 million positive impact on total operating expenses during the three months ended June 30, 2015.

**Global Investment Management**

Revenue decreased by \$32.3 million, or 25.5%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Prior quarter results included \$7.4 million of carried interest revenue, while current quarter results only included \$0.6 million of carried interest revenue. Lower asset management, incentive and disposition fees in the current year also contributed to the variance. Foreign currency translation had a \$9.2 million negative impact on total revenue during the three months ended June 30, 2015, primarily driven by weakness in the British pound sterling and euro when converting to U.S. dollars during the three months ended June 30, 2015 versus the three months ended June 30, 2014.

Operating, administrative and other expenses decreased by \$19.6 million, or 20.9%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by lower payroll-related costs (including bonuses) as well as lower carried interest expense incurred in the current year. Foreign currency translation also had a \$7.2 million positive impact on total operating expenses during the three months ended June 30, 2015.

A rollforward of our AUM by product type for the three months ended June 30, 2015 is as follows (dollars in billions):

	<b>Funds</b>	<b>Separate Accounts</b>	<b>Securities</b>	<b>Consolidated</b>
Balance at April 1, 2015	\$ 27.1	\$ 35.5	\$ 24.5	\$ 87.1
Inflows	1.2	1.3	0.9	3.4
Outflows	(0.7)	(0.6)	(2.1)	(3.4)
Market appreciation (depreciation)	0.9	1.9	(1.5)	1.3
<b>Balance at June 30, 2015</b>	<b>\$ 28.5</b>	<b>\$ 38.1</b>	<b>\$ 21.8</b>	<b>\$ 88.4</b>

---

## **Table of Contents**

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, securities portfolios and investments in operating companies and joint ventures. Our AUM is intended principally to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our assets under management consist of:

- a) the total fair market value of the real estate properties and other assets either wholly-owned or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested or to which they have provided financing. Committed (but unfunded) capital from investors in our sponsored funds is not included in this component of our AUM. The value of development properties is included at estimated completion cost. In the case of real estate operating companies, the total value of real properties controlled by the companies, generally through joint ventures, is included in AUM; and
- b) the net asset value of our managed securities portfolios, including investments (which may be comprised of committed but uncalled capital) in private real estate funds under our fund of funds program.

Our calculation of AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers.

### **Development Services**

Revenue increased by \$1.9 million, or 14.7%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily driven by higher development fees in the current year.

Operating, administrative and other expenses increased by \$1.8 million, or 14.4%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. This increase was primarily driven by higher bonuses in the current year.

As of June 30, 2015, development projects in process totaled \$6.0 billion, up 11.1% from year-end 2014, and the inventory of pipeline deals totaled \$3.7 billion, down 7.5% from year-end 2014.

### **Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014**

#### **Americas**

Revenue increased by \$404.7 million, or 17.9%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. This improvement was primarily driven by improved sales, leasing, commercial mortgage brokerage and appraisal activity, as well as higher property, facilities and project management fees. Foreign currency translation had a \$30.2 million negative impact on total revenue during the six months ended June 30, 2015, primarily driven by weakness in the Canadian dollar when converting to U.S. dollars during the six months ended June 30, 2015 versus the six months ended June 30, 2014.

Cost of services increased by \$249.0 million, or 17.0%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily due to increased commission expense resulting from higher sales and lease transaction revenue. Higher costs associated with our property and facilities management businesses as well as higher professional salaries and related costs due to increased headcount (in part due to in-fill acquisitions) also contributed to the increase. Foreign currency translation had a \$19.4 million positive impact on cost of services during the six months ended June 30, 2015. Cost of services as a percentage of revenue decreased to 64.3% for the six months ended June 30, 2015 from 64.8% for the six months ended June 30, 2014, primarily due an increase in lending activity with GSEs, with no corresponding cost of services associated with that revenue stream. Excluding such activity, cost of services was relatively consistent at 65.7% for the six months ended June 30, 2015 versus 65.5% for the six months ended June 30, 2014.

---

## **Table of Contents**

Operating, administrative and other expenses increased by \$59.5 million, or 11.6%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The increase was primarily driven by higher payroll-related costs, which resulted from increased headcount, as well as higher marketing and travel costs, all partly due to in-fill acquisitions. These increases were partially mitigated by foreign currency movement, including an \$11.0 million improvement in foreign currency transaction activity over the prior year, primarily related to hedging activities, and a \$7.9 million positive impact from foreign currency translation during the six months ended June 30, 2015.

### **EMEA**

Revenue increased by \$50.1 million, or 4.9%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The increase was broad-based, as every major business line showed growth, led by sales activity. Notable strength was evident in Germany, Spain and the United Kingdom. The increase in revenue was largely muted by foreign currency translation, which had a \$148.7 million negative impact on total revenue during the six months ended June 30, 2015, primarily driven by weakness in the British pound sterling and euro when converting to U.S. dollars during the six months ended June 30, 2015 versus the six months ended June 30, 2014.

Cost of services increased by \$31.7 million, or 4.3%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. This increase was primarily driven by higher professional salaries due to investments in personnel and higher professional bonuses in the United Kingdom due to improved results. Higher costs associated with our property and facilities management businesses also contributed to the increase in the current year. These increases were largely masked by foreign currency translation, which had a \$101.5 million positive impact on cost of services during the six months ended June 30, 2015. Cost of services as a percentage of revenue decreased to 70.7% for the six months ended June 30, 2015 from 71.1% for the six months ended June 30, 2014, primarily driven by higher transaction revenue in the current year in certain countries that have a fixed compensation structure.

Operating, administrative and other expenses increased by \$14.4 million, or 5.8% for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. Higher payroll-related (including bonuses), marketing and travel costs were largely offset by foreign currency translation, which had a \$39.8 million positive impact on total operating expenses during the six months ended June 30, 2015.

### **Asia Pacific**

Revenue increased by \$33.3 million, or 7.6%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, reflecting improved overall performance in several countries, most notably in Australia, Greater China and India, particularly in property, facilities and project management activity. Contributions from our acquisition of our former affiliate in Thailand in June 2014 also added to the current year increase. The overall increase was partially muted by foreign currency translation, which had a \$46.8 million negative impact on total revenue during the six months ended June 30, 2015, primarily driven by weakness in the Australian dollar and Japanese yen when converting to U.S. dollars during the six months ended June 30, 2015 versus the six months ended June 30, 2014.

Cost of services increased by \$22.1 million, or 7.8%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, driven by higher costs associated with our property and facilities management businesses. Increased commission expense resulting from higher transaction revenue as well as higher professional salaries and related costs (in part due to the acquisition of our former affiliate in Thailand in June 2014) also contributed to the increase in the current year. These increases were partially offset by foreign currency translation, which had a \$27.1 million positive impact on cost of services during the six months ended June 30, 2015. Cost of services as a percentage of revenue was relatively flat at 64.6% for the six months ended June 30, 2015 as compared to 64.5% for the six months ended June 30, 2014.

**Table of Contents**

Operating, administrative and other expenses increased by \$4.6 million, or 3.7%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily driven by higher payroll-related costs (including bonuses), as well as increased marketing and travel costs (in part due to the acquisition of our former affiliate in Thailand in June 2014). Foreign currency translation had a \$13.2 million positive impact on total operating expenses during the six months ended June 30, 2015.

**Global Investment Management**

Revenue decreased by \$34.5 million, or 14.4%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily driven by lower asset management, incentive and disposition fees in the current year. Foreign currency translation also had a \$17.5 million negative impact on total revenue during the six months ended June 30, 2015, primarily driven by weakness in the British pound sterling and euro when converting to U.S. dollars during the first quarter of 2015 versus the first quarter of 2014.

Operating, administrative and other expenses decreased by \$30.7 million, or 17.2%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily driven by lower payroll-related costs (including bonuses) as well as lower carried interest expense incurred in the current year. Foreign currency translation also had a \$12.9 million positive impact on total operating expenses during the six months ended June 30, 2015.

A rollforward of our AUM by product type for the six months ended June 30, 2015 is as follows (dollars in billions):

	Funds	Separate Accounts	Securities	Consolidated
Balance at January 1, 2015	\$ 28.8	\$ 37.0	\$ 24.8	\$ 90.6
Inflows	1.9	2.4	1.9	6.2
Outflows	(1.3)	(2.2)	(4.1)	(7.6)
Market (depreciation) appreciation	(0.9)	0.9	(0.8)	(0.8)
Balance at June 30, 2015	\$ 28.5	\$ 38.1	\$ 21.8	\$ 88.4

We describe above how we calculate AUM. Also as noted above, our calculation of AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers.

**Development Services**

Revenue increased by \$1.7 million, or 7.0%, for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily driven by higher development fees in the current year.

Operating, administrative and other expenses were relatively consistent at \$32.7 million for the six months ended June 30, 2015 versus \$33.2 million for the six months ended June 30, 2014.

**Liquidity and Capital Resources**

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under our revolving credit facility. Our expected capital requirements for 2015 include up to approximately \$180 million of anticipated capital expenditures, net of tenant concessions. During the six months ended June 30, 2015, we incurred \$44.1 million of capital expenditures, net of tenant concessions received. As of June 30, 2015, we had committed to fund \$20.6 million of additional capital to unconsolidated subsidiaries within our Development Services business, which we may be required to fund at any time. Additionally, as of June 30, 2015, we had aggregate commitments of \$20.7 million to fund future co-investments in our Global Investment Management business, \$11.3 million of which is expected to be funded in 2015.

---

**Table of Contents**

On March 31, 2015, CBRE, Inc., our wholly-owned subsidiary, entered into a Purchase Agreement with JCI to acquire the GWS business of JCI. GWS is a market-leading provider of Integrated Facilities Management solutions for major occupiers of commercial real estate and has significant operations around the world. The purchase price is \$1.475 billion, payable in cash, with adjustments for working capital and other items. We expect to fund the acquisition through a combination of cash on hand and proceeds from the incurrence of debt. The closing of the transaction is subject to receipt of customary regulatory approvals and satisfaction of other customary closing conditions. The transaction is expected to close in the late third quarter or early fourth quarter of 2015.

We also completed four financing transactions in recent years. These occurred in March 2013, September 2014 and December 2014, respectively, where we took advantage of market conditions to refinance our capital-markets debt. In addition, in January 2015, we entered into an amended and restated credit agreement providing for a \$500.0 million tranche A term loan facility and a \$2.6 billion revolving credit facility. We historically have not sought external sources of financing and have relied on our internally generated cash flow and our revolving credit facility to fund our working capital, capital expenditure and investment requirements. In the absence of extraordinary events, we anticipate that our cash flow from operations and our revolving credit facility would be sufficient to meet our anticipated cash requirements for the foreseeable future, and at a minimum for the next 12 months. We may again seek to take advantage of market opportunities to refinance existing debt securities with new debt securities at interest rates, maturities and terms we would deem attractive.

As evidenced above, from time to time, we consider potential strategic acquisitions. We believe that any future significant acquisitions that we may make could require us to obtain additional debt or equity financing. In the past, we have been able to obtain such financing for material transactions on terms that we believed to be reasonable. However, it is possible that we may not be able to find acquisition financing on favorable terms, or at all, in the future if we decide to make any further material acquisitions.

Our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of three elements. The first is the repayment of the outstanding and anticipated principal amounts of our long-term indebtedness. We are unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If our cash flow is insufficient, then we expect that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. We cannot make any assurances that such refinancing or amendments would be available on attractive terms, if at all.

The second long-term liquidity need is the repayment of obligations under our pension plans in the United Kingdom. Our subsidiaries based in the United Kingdom maintain two contributory 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 to the plans, an amount to fund pension liabilities as actuarially determined and as required by applicable laws and regulations. Our contributions to these plans are invested by the plan trustee and, if these investments do not perform well in the future, we may be required to provide additional contributions to cover any pension underfunding. The underfunded status of our defined benefit pension plans included in pension liability in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report on Form 10-Q was \$91.0 million and \$92.9 million at June 30, 2015 and December 31, 2014, respectively. We expect to contribute a total of \$6.3 million to fund our pension plans for the year ending December 31, 2015, of which \$3.4 million was funded as of June 30, 2015.

The third long-term liquidity need is the payment of obligations related to acquisitions. Our acquisition structures often include deferred and/or contingent purchase price payments in future periods that are subject to the passage of time or achievement of certain performance metrics and other conditions. As of June 30, 2015 and December 31, 2014, we had accrued for \$74.1 million and \$125.2 million, respectively, of deferred purchase consideration, which was included in accounts payable and accrued expenses and in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report on Form 10-Q.

---

## **Table of Contents**

### ***Historical Cash Flows***

#### ***Operating Activities***

Net cash used in operating activities totaled \$42.2 million for the six months ended June 30, 2015, a decrease of \$181.8 million as compared to the six months ended June 30, 2014. The decrease in cash used in operating activities in the current year was primarily due to a decrease in receivables, lower net payments to vendors and lower income taxes paid in the current year. These items were partially offset by higher bonuses and commissions paid in the current year.

#### ***Investing Activities***

Net cash used in investing activities totaled \$170.8 million for the six months ended June 30, 2015, an increase of \$168.8 million as compared to the six months ended June 30, 2014. This variance was primarily driven by proceeds received from the sale of real estate held for investment in the prior year (which did not recur in the current year) and a greater amount paid for acquisitions in the current year, partially offset by higher purchases of available for sale securities in the prior year. An increase in restricted cash during the six months ended June 30, 2015 versus a decrease in restricted cash during the six months ended June 30, 2014 also contributed to the variance.

#### ***Financing Activities***

Net cash used in financing activities totaled \$180.5 million for the six months ended June 30, 2015 as compared to net cash provided by financing activities of \$110.7 million for the six months ended June 30, 2014. This variance was primarily due to the repayment of \$645.6 million of senior term loans under our previous credit agreement, partially offset by the establishment of \$500.0 million of new senior term loans under our new credit agreement, both of which occurred in the current year. Lower net borrowings under our revolving credit facility in the current year, partially offset by higher net repayments of notes payable on real estate within our Development Services segment in the prior year also contributed to the variance.

### ***Indebtedness***

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

We maintain credit facilities with third-party lenders, which we use for a variety of purposes. On March 28, 2013, we entered into a credit agreement (the 2013 Credit Agreement) with a syndicate of banks led by Credit Suisse AG, or CS, as administrative and collateral agent, to completely refinance a previous credit agreement. On January 9, 2015, we entered into an amended and restated credit agreement (the 2015 Credit Agreement) with a syndicate of banks jointly led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and CS. In January 2015, we used the proceeds from the tranche A term loan facility under the 2015 Credit Agreement and from the December 2014 issuance of \$125.0 million of 5.25% senior notes due 2025, along with cash on hand, to pay off the prior tranche A and tranche B term loans and the balance on our revolving credit facility under the 2013 Credit Agreement.

The 2015 Credit Agreement is now an unsecured credit facility that is jointly and severally guaranteed by us and substantially all of our material domestic subsidiaries. The 2015 Credit Agreement currently provides for the following: (1) a \$2.6 billion revolving credit facility, which includes the capacity to obtain letters of credit and swingline loans and matures on January 9, 2020; and (2) a \$500.0 million tranche A term loan facility requiring quarterly principal payments, which began on June 30, 2015 and continue through maturity on January 9, 2020.

---

**Table of Contents**

The revolving credit facility under the 2015 Credit Agreement allows for borrowings outside of the United States, with a \$75.0 million sub-facility available to one of our Canadian subsidiaries, a \$100.0 million sub-facility available to one of our Australian subsidiaries and one of our New Zealand subsidiaries and a \$300.0 million sub-facility available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision in the 2015 Credit Agreement. Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either (1) the applicable fixed rate plus 0.85% to 1.00% or (2) the daily rate, in each case as determined by reference to our Credit Rating (as defined in the 2015 Credit Agreement). The 2015 Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment (whether used or unused) and as of June 30, 2015, no amounts were outstanding under our revolving credit facility other than letters of credit totaling \$2.0 million. These letters of credit, which reduce the amount we may borrow under the revolving credit facility, were primarily issued in the ordinary course of business. As of December 31, 2014, we had \$4.8 million of revolving credit facility principal outstanding under the 2013 Credit Agreement with a related weighted average annual interest rate of 1.4%, which was included in short-term borrowings in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

Borrowings under the tranche A term loan facility under the 2015 Credit Agreement as of June 30, 2015 bear interest, based on our option, on either (1) the applicable fixed rate plus 0.95% to 1.25% or (2) the daily rate plus 0.0% to 0.25%, in each case as determined by reference to our Credit Rating (as defined in the 2015 Credit Agreement). As of June 30, 2015, we had \$496.9 million of term loan facility principal outstanding under the 2015 Credit Agreement, which was included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report. As of December 31, 2014, we had \$645.6 million of term loan facilities principal outstanding (including \$434.4 million of tranche A term loan facility and \$211.2 million of tranche B term loan facility) under the 2013 Credit Agreement, which are also included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

In July 2015, we entered into three interest rate swap agreements, all with effective dates in August 2015, and designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. These derivatives are used to hedge the variability of future interest payments due to changes in interest rates prior to us issuing fixed rate debt. The total notional amount of these interest rate swap agreements is \$300.0 million, all of which expires in August 2025, but will be cash settled at the earlier of the debt issuance date or a mandatory cash settlement date in late 2015.

In March 2011, we entered into five interest rate swap agreements, all with effective dates in October 2011, and immediately designated them as cash flow hedges in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*. The purpose of these interest rate swap agreements is to attempt to hedge potential changes to our cash flows due to the variable interest nature of our senior term loan facilities. The total notional amount of these interest rate swap agreements is \$400.0 million, with \$200.0 million expiring in October 2017 and \$200.0 million expiring in September 2019. There was no significant hedge ineffectiveness for the three and six months ended June 30, 2015 and 2014. As of June 30, 2015 and December 31, 2014, the fair values of such interest rate swap agreements were reflected as a \$25.1 million liability and a \$26.9 million liability, respectively, and were included in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

On August 6, 2015, we entered into an underwriting agreement related to the public offering and sale of \$600.0 million in aggregate principal amount of 4.875% Senior Notes due 2026 (the 2026 Notes), to be issued by CBRE Services, Inc., or CBRE, our wholly-owned subsidiary. The 2026 Notes will be guaranteed on a full and unconditional basis by us and each domestic subsidiary of CBRE that guarantees our 2015 Credit Agreement. We expect to issue the 2026 Notes on August 13, 2015, subject to customary closing conditions.

On September 26, 2014, CBRE issued \$300.0 million in aggregate principal amount of 5.25% senior notes due March 15, 2025. On December 12, 2014, CBRE issued an additional \$125.0 million in aggregate principal



**Table of Contents**

amount of 5.25% senior notes due March 15, 2025 at a price equal to 101.5% of their face value, plus interest deemed to have accrued from September 26, 2014. The 5.25% senior notes are unsecured obligations of CBRE, senior to all of its current and future subordinated indebtedness, but effectively subordinated to all of its current and future secured indebtedness. The 5.25% senior notes are jointly and severally guaranteed on a senior basis by us and each domestic subsidiary of CBRE that guarantees our 2015 Credit Agreement. Interest accrues at a rate of 5.25% per year and is payable semi-annually in arrears on March 15 and September 15, with the first interest payment made on March 15, 2015. The 5.25% senior notes are redeemable at our option, in whole or in part, prior to December 15, 2024 at a redemption price equal to the greater of (1) 100% of the principal amount of the 5.25% senior notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon to December 15, 2024 (not including any portions of payments of interest accrued as of the date of redemption) discounted to the date of redemption on a semi-annual basis at the Adjusted Treasury Rate (as defined in the indentures governing these notes). In addition, at any time on or after December 15, 2024, the 5.25% senior notes may be redeemed by us, in whole or in part, at a redemption price equal to 100.0% of the principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. If a change of control triggering event (as defined in the indenture governing these notes) occurs, we are obligated to make an offer to purchase the then outstanding 5.25% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. The amount of the 5.25% senior notes included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report was \$426.8 million at both June 30, 2015 and December 31, 2014.

On March 14, 2013, CBRE issued \$800.0 million in aggregate principal amount of 5.00% senior notes due March 15, 2023. The 5.00% senior notes are unsecured obligations of CBRE, senior to all of its current and future subordinated indebtedness, but effectively subordinated to all of its current and future secured indebtedness. The 5.00% senior notes are jointly and severally guaranteed on a senior basis by us and each domestic subsidiary of CBRE that guarantees our 2015 Credit Agreement. Interest accrues at a rate of 5.00% per year and is payable semi-annually in arrears on March 15 and September 15, with the first interest payment made on September 15, 2013. The 5.00% senior notes are redeemable at our option, in whole or in part, on or after March 15, 2018 at a redemption price of 102.5% of the principal amount on that date and at declining prices thereafter. At any time prior to March 15, 2016, we may redeem up to 35.0% of the original principal amount of the 5.00% senior notes using the net cash proceeds from certain public offerings. In addition, at any time prior to March 15, 2018, the 5.00% senior notes may be redeemed by us, in whole or in part, at a redemption price equal to 100.0% of the principal amount, plus accrued and unpaid interest, if any, to the date of redemption, and an applicable premium (as defined in the indenture governing these notes), which is based on the excess of the present value of the March 15, 2018 redemption price plus all remaining interest payments through March 15, 2018, over the principal amount of the 5.00% senior notes on such redemption date. If a change of control triggering event (as defined in the indenture governing these notes) occurs, we are obligated to make an offer to purchase the then outstanding 5.00% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest, if any. The amount of the 5.00% senior notes included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report was \$800.0 million at both June 30, 2015 and December 31, 2014.

Our 2015 Credit Agreement and the indentures governing our 5.00% senior notes and 5.25% senior notes contain restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our 2015 Credit Agreement also requires us to maintain a minimum coverage ratio of EBITDA (as defined in the 2015 Credit Agreement) to total interest expense of 2.00x and a maximum leverage ratio of total debt less available cash to EBITDA (as defined in the 2015 Credit Agreement) of 4.25x as of the end of each fiscal quarter. Our coverage ratio of EBITDA to total interest expense was 13.74x for the trailing twelve months ended June 30, 2015 and our leverage ratio of

---

**Table of Contents**

total debt less available cash to EBITDA was 1.15x as of June 30, 2015. We may from time to time explore opportunities to refinance or reduce our outstanding debt under our 2015 Credit Agreement and under our 5.00% senior notes and 5.25% senior notes.

We had short-term borrowings of \$744.5 million and \$506.1 million as of June 30, 2015 and December 31, 2014, respectively, with related weighted average interest rates of 1.8%, which are included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

On March 2, 2007, we entered into a \$50.0 million credit note with Wells Fargo Bank for the purpose of purchasing eligible investments, which include cash equivalents, agency securities, A1/P1 commercial paper and eligible money market funds. The proceeds of this note are not made generally available to us, but instead are deposited in an investment account maintained by Wells Fargo Bank and used and applied solely to purchase eligible investment securities. This agreement has been amended several times and currently provides for a \$5.0 million revolving credit note, bears interest at 0.25% per year and has a maturity date of April 30, 2016. As of June 30, 2015 and December 31, 2014, there were no amounts outstanding under this note.

On March 4, 2008, we entered into a \$35.0 million credit and security agreement with Bank of America, or BofA, for the purpose of purchasing eligible financial instruments, which include A1/P1 commercial paper, U.S. Treasury securities, Government Sponsored Enterprise, or GSE, discount notes (as defined in the credit and security agreement) and money market funds. The proceeds of this loan are not made generally available to us, but instead are deposited in an investment account maintained by BofA and used and applied solely to purchase eligible financial instruments. This agreement has been amended several times and currently provides for a \$5.0 million credit line, bears interest at 1% per year and has a maturity date of April 30, 2016. As of June 30, 2015 and December 31, 2014, there were no amounts outstanding under this agreement.

Our wholly-owned subsidiary, CBRE Capital Markets, has the following warehouse lines of credit: credit agreements with JP Morgan Chase Bank, N.A., or JP Morgan, BofA, TD Bank, N.A., or TD Bank, and Capital One, N.A., or Capital One, for the purpose of funding mortgage loans that will be resold, and a funding arrangement with Federal National Mortgage Association, or Fannie Mae, for the purpose of selling a percentage of certain closed multifamily loans.

On November 15, 2005, CBRE Capital Markets entered into a secured credit agreement with JP Morgan to establish a warehouse line of credit. This agreement has been amended several times and currently provides for a \$175.0 million line of credit, bears interest at the daily one-month LIBOR plus 1.90% and has a maturity date of October 26, 2015.

On April 16, 2008, CBRE Capital Markets entered into a secured credit agreement with BofA to establish a warehouse line of credit. This agreement has been amended several times and currently bears interest at the daily one-month LIBOR plus 1.60%. A portion of the line of credit totaling \$75.0 million matured on July 1, 2015. The remainder, or \$200.0 million, has a maturity date of May 26, 2016.

In August 2009, CBRE Capital Markets entered into a funding arrangement with Fannie Mae under its Multifamily As Soon As Pooled Plus Agreement and its Multifamily As Soon As Pooled Sale Agreement, or ASAP Program. Under the ASAP Program, CBRE Capital Markets may elect, on a transaction by transaction basis, to sell a percentage of certain closed multifamily loans to Fannie Mae on an expedited basis. After all contingencies are satisfied, the ASAP Program requires that CBRE Capital Markets repurchase the interest in the multifamily loan previously sold to Fannie Mae followed by either a full delivery back to Fannie Mae via whole loan execution or a securitization into a mortgage backed security. Under this agreement, the maximum outstanding balance under the ASAP Program cannot exceed \$200.0 million and, between the sale date to Fannie Mae and the repurchase date by CBRE Capital Markets, the outstanding balance bears interest and is payable to Fannie Mae at the daily one-month LIBOR plus 1.35% with a LIBOR floor of 0.35%. For the months of April and June 2015, the maximum outstanding balance was temporarily increased from \$200.0 million to \$300.0 million. This arrangement remains in place but is cancelable at any time by Fannie Mae with notice.

---

**Table of Contents**

On December 21, 2010, CBRE Capital Markets entered into a secured credit agreement with TD Bank to establish a warehouse line of credit. The secured revolving line of credit has been amended several times and currently provides for a \$325.0 million line of credit, bears interest at the daily one-month LIBOR plus 1.35% and has a maturity date of June 30, 2016.

On July 30, 2012, CBRE Capital Markets entered into a secured credit agreement with Capital One to establish a warehouse line of credit. This agreement currently provides for a \$300.0 million senior secured revolving line of credit, bears interest at the daily one-month LIBOR plus 1.55% and has a maturity date of July 28, 2016. On July 28, 2015, the line was temporarily increased from \$200.0 million to \$300.0 million, with such increase expiring on August 31, 2015.

On March 17, 2014, CBRE Capital Markets wholly-owned subsidiary, CBRE Business Lending, Inc., entered into a secured credit agreement with JP Morgan to establish a line of credit. This agreement has been amended and currently provides for a \$15.0 million secured revolving line of credit, bears interest at daily one-month LIBOR plus 2.75% and has a maturity date of March 15, 2016.

During the six months ended June 30, 2015, we had a maximum of \$1.4 billion of warehouse lines of credit principal outstanding. As of June 30, 2015 and December 31, 2014, we had \$743.6 million and \$501.2 million, respectively, of warehouse lines of credit principal outstanding, which are included in short-term borrowings in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report. Additionally, we had \$750.8 million and \$506.3 million of mortgage loans held for sale (warehouse receivables), as of June 30, 2015 and December 31, 2014, respectively, which substantially represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased and which were also included in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

***Off-Balance Sheet Arrangements***

In January 2008, CBRE Multifamily Capital, Inc., or CBRE MCI, a wholly-owned subsidiary of CBRE Capital Markets, entered into an agreement with Fannie Mae, under Fannie Mae's Delegated Underwriting and Servicing Lender Program, or DUS Program, to provide financing for multifamily housing with five or more units. Under the DUS Program, CBRE MCI originates, underwrites, closes and services loans without prior approval by Fannie Mae, and in select cases, is subject to sharing up to one-third of any losses on loans originated under the DUS Program. CBRE MCI has funded loans subject to such loss sharing arrangements with unpaid principal balances of \$11.3 billion at June 30, 2015. Additionally, CBRE MCI has funded loans under the DUS Program that are not subject to loss sharing arrangements with unpaid principal balances of approximately \$51.6 million at June 30, 2015. CBRE MCI, under its agreement with Fannie Mae, must post cash reserves or other acceptable collateral under formulas established by Fannie Mae to provide for sufficient capital in the event losses occur. As of June 30, 2015 and December 31, 2014, CBRE MCI had a \$32.0 million and a \$29.0 million, respectively, letter of credit under this reserve arrangement, and had provided approximately \$19.9 million and \$16.8 million, respectively, of loan loss accruals. Fannie Mae's recourse under the DUS Program is limited to the assets of CBRE MCI, which totaled approximately \$267.0 million (including \$112.7 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at June 30, 2015.

We had outstanding letters of credit totaling \$41.4 million as of June 30, 2015, excluding letters of credit for which we have outstanding liabilities already accrued on our consolidated balance sheet related to our subsidiaries' outstanding reserves for claims under certain insurance programs as well as letters of credit related to operating leases. CBRE MCI's letter of credit totaling \$32.0 million referred to in the preceding paragraph represented the majority of the \$41.4 million outstanding letters of credit. The remaining letters of credit are primarily executed by us in the ordinary course of business and expire at varying dates through June 2016.

## **Table of Contents**

We had guarantees totaling \$19.9 million as of June 30, 2015, excluding guarantees related to pension liabilities, consolidated indebtedness and other obligations for which we have outstanding liabilities already accrued on our consolidated balance sheet, and excluding guarantees related to operating leases. The \$19.9 million primarily represents guarantees of obligations of unconsolidated subsidiaries, which expire at varying dates through December 2018, as well as various guarantees of management contracts in our operations overseas, which expire at the end of each of the respective agreements.

In addition, as of June 30, 2015, we had numerous non-recourse carveout, completion and budget guarantees relating to development projects. These guarantees are commonplace in our industry and are made by us in the ordinary course of our Development Services business. Non-recourse carveout guarantees generally require that our project-entity borrower not commit specified improper acts, with us potentially liable for all or a portion of such entity's indebtedness or other damages suffered by the lender if those acts occur. Completion and budget guarantees generally require us to complete construction of the relevant project within a specified timeframe and/or within a specified budget, with us potentially being liable for costs to complete in excess of such timeframe or budget. However, we generally use guaranteed maximum price contracts with reputable, bondable general contractors with respect to projects for which we provide these guarantees. These contracts are intended to pass the risk to such contractors. While there can be no assurance, we do not expect to incur any material losses under these guarantees.

An important part of the strategy for our Global Investment Management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2.0% to 5.0% of the equity in a particular fund. As of June 30, 2015, we had aggregate commitments of \$20.7 million to fund future co-investments, \$11.3 million of which is expected to be funded in 2015. 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.

Additionally, an important part of our Development Services business strategy is to invest in unconsolidated real estate subsidiaries as a principal (in most cases co-investing with our clients). As of June 30, 2015, we had committed to fund \$20.6 million of additional capital to these unconsolidated subsidiaries, which we may be required to fund at any time.

## **Seasonality**

A significant portion of our revenue is seasonal, which an investor should keep in mind when comparing our financial condition and results of operations on a quarter-by-quarter basis. Historically, our revenue, operating income, net income and cash flow from operating activities tend to be lowest in the first quarter, and highest in the fourth quarter of each year. Earnings and cash flow have generally been concentrated in the fourth quarter due to the focus on completing sales, financing and leasing transactions prior to calendar year-end.

## **New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance under accounting principles generally accepted in the United States, or GAAP, when it becomes effective on January 1, 2018. This ASU permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of this ASU on our ongoing financial reporting.

---

## **Table of Contents**

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU provides consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. ASU 2015-02 offers updated consolidation evaluation criteria and may require additional disclosures. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. We do not believe the adoption of ASU 2015-02 will have a material impact on our consolidated financial position, results of operations or disclosure requirements of our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and requires the use of the retrospective method. ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. We do not believe the adoption of this ASU will have a material impact on our consolidated financial position.

### **Cautionary Note on Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words anticipate, believe, could, should, propose, estimate, expect, intend, may, plan, predict, project, will and similar terms and phrases are used in this Quarterly Report on Form 10-Q to identify forward-looking statements. Except for historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q are forward-looking statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies.

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

The following factors are among those, but are not only those, that may cause actual results to differ materially from the forward-looking statements:

disruptions in general economic and business conditions, particularly in geographies where our business may be concentrated;

volatility and disruption of the securities, capital and credit markets (including the real estate investment trust market), interest rate increases, the cost and availability of capital for investment in real estate, clients' willingness to make real estate or long-term contractual commitments and other factors affecting the value of real estate assets, inside and outside the United States;

increases in unemployment and general slowdowns in commercial activity;

trends in pricing and risk assumption for commercial real estate services;

the effect of significant movements in average cap rates across different property types;

a reduction by companies in their reliance on outsourcing for their commercial real estate needs, which would affect our revenues and operating performance;

client actions to restrain project spending and reduce outsourced staffing levels;



**Table of Contents**

declines in lending activity of Government Sponsored Enterprises, regulatory oversight and limits on such activity and our mortgage servicing revenue from the U.S. commercial real estate mortgage market;

our ability to diversify our revenue model to offset cyclical economic trends in the commercial real estate industry;

foreign currency fluctuations;

our ability to attract new user and investor clients;

our ability to retain major clients and renew related contracts;

our ability to leverage our global services platform to maximize and sustain long-term cash flow;

our ability to maintain EBITDA margins that enable us to continue investing in our platform and client service offerings;

our ability to control costs relative to revenue growth;

variations in historically customary seasonal patterns that cause our business not to perform as expected;

changes in domestic and international law and regulatory environments (including relating to anti-corruption, anti-money laundering, trade sanctions, currency controls and other trade control laws), particularly in Russia, Eastern Europe and the Middle East, due to the level of political instability in those regions;

our ability to identify, acquire and integrate synergistic and accretive businesses;

costs and potential future capital requirements relating to businesses we may acquire;

integration challenges arising out of our pending acquisition of the Global WorkPlace Solutions (GWS) business and other companies we may acquire (including our ability to close the GWS acquisition and the timing of that closing), and our ability to achieve expected cost synergies relating to those acquisitions;

our ability to retain and incentivize producers;

our and our employees' ability to execute on, and adapt to, information technology strategies and trends;

the ability of our Global Investment Management business to maintain and grow assets under management and achieve desired investment returns for our investors, and any potential related litigation, liabilities or reputational harm possible if we fail to do so;

our ability to manage fluctuations in net earnings and cash flow, which could result from poor performance in our investment programs, including our participation as a principal in real estate investments;

our leverage and our ability to perform under our credit facilities, indentures and other debt instruments, including additional debt that we may incur in connection with the acquisition of the GWS business;

our exposure to liabilities in connection with real estate advisory and property management activities and our ability to procure sufficient insurance coverage on acceptable terms;

liabilities under guarantees, or for construction defects, that we incur in our Global Investment Management and Development Services businesses;

the ability of CBRE Capital Markets to periodically amend, or replace, on satisfactory terms, the agreements for its warehouse lines of credit;



**Table of Contents**

our ability to compete globally, or in specific geographic markets or business segments that are material to us;

changes in tax laws in the United States or in other jurisdictions in which our business may be concentrated that reduce or eliminate deductions or other tax benefits we receive;

our ability to maintain our effective tax rate at or below current levels;

our ability to comply with laws and regulations related to our global operations, including real estate and facilities management licensure, labor and employment laws and regulations, as well as the anti-corruption laws and trade sanctions of the U.S. and other countries;

the effect of implementation of new accounting rules and standards; and

the other factors described elsewhere in this Quarterly Report on Form 10-Q, included under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Critical Accounting Policies," "Quantitative and Qualitative Disclosures About Market Risk," and Part II, Item 1A, "Risk Factors," or as described in our Annual Report on Form 10-K for the year ended December 31, 2014, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, in particular in Part II, Item 1A, "Risk Factors," or as described in the other documents and reports we file with the Securities and Exchange Commission.

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

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information in this section should be read in connection with the information on market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in our Annual Report on Form 10-K for the year ended December 31, 2014. Our exposure to market risk primarily consists of foreign currency exchange rate fluctuations related to our international operations and changes in interest rates on debt obligations. We manage such risk primarily by managing the amount, sources, and duration of our debt funding and by using derivative financial instruments. We apply the *Derivatives and Hedging* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) (Topic 815) when accounting for derivative financial instruments. In all cases, we view derivative financial instruments as a risk management tool and, accordingly, do not use derivatives for trading or speculative purposes.

Our foreign operations expose us to fluctuations in foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments in terms of our functional (reporting) currency, which is U.S. dollars. During the six months ended June 30, 2015, approximately 42% of our business was transacted in non-U.S. dollar currencies, the majority of which includes the Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese yuan, euro, Indian rupee, Japanese yen and Singapore dollar. We enter into derivative financial instruments to attempt to protect the value or fix the amount of certain obligations in terms of our reporting currency, the U.S. dollar.

In July 2015, we entered into three interest rate swap agreements, all with effective dates in August 2015, and designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. These derivatives are used to hedge the variability of future interest payments due to changes in interest rates prior to us issuing fixed rate debt. The total notional amount of these interest rate swap agreements is \$300.0 million, all of which expires in August 2025, but will be cash settled at the earlier of the debt issuance date or a mandatory cash settlement date in late 2015.

In March 2014, we began a foreign currency exchange forward hedging program by entering into 38 foreign currency exchange forward contracts, including agreements to buy U.S. dollars and sell Australian dollars, British pound sterling, Canadian dollars, euros and Japanese yen, covering an initial notional amount of \$209.7 million. The purpose of these forward contracts is to attempt to mitigate the risk of fluctuations in foreign currency exchange rates that would adversely impact some of our foreign currency denominated EBITDA. Hedge accounting was not elected for any of these contracts. As such, changes in the fair values of these contracts are recorded directly in earnings. Included in the consolidated statements of operations set forth in Item 1 of this Quarterly Report were net losses of \$11.1 million and net gains of \$7.3 million from foreign currency exchange forward contracts for the three and six months ended June 30, 2015, respectively, and net losses of \$3.4 million from foreign currency exchange forward contracts for both the three and six months ended June 30, 2014. As of June 30, 2015, we had 83 foreign currency exchange forward contracts outstanding covering a notional amount of \$367.7 million. As of June 30, 2015, the fair value of forward contracts with five counterparties aggregated to a \$7.1 million asset position, which was included in other current assets in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report. As of June 30, 2015, the fair value of forward contracts with six counterparties aggregated to a \$4.6 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

We also routinely monitor our exposure to currency exchange rate changes in connection with certain transactions and sometimes enter into foreign currency exchange option and forward contracts to limit our exposure to such transactions, as appropriate. In the ordinary course of business, we also sometimes utilize derivative financial instruments in the form of foreign currency exchange contracts to attempt to mitigate foreign currency exchange exposure resulting from intercompany loans. Included in the consolidated statements of operations were net losses of \$0.6 million and \$0.2 million for the three and six months ended June 30, 2015,

**Table of Contents**

respectively, resulting from net losses on these foreign currency exchange option and forward contracts. The net impact on earnings resulting from gains and/or losses associated with these contracts during the three and six months ended June 30, 2014 was not significant. As of June 30, 2015, we had four foreign currency exchange option and forward contracts outstanding covering a notional amount of \$33.0 million. As of June 30, 2015, the fair value of forward contracts with two counterparties aggregated to a \$0.5 million liability position, which was included in other current liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

In March 2011, we entered into five interest rate swap agreements, all with effective dates in October 2011, and immediately designated them as cash flow hedges in accordance with Topic 815. The purpose of these interest rate swap agreements is to attempt to hedge potential changes to our cash flows due to the variable interest nature of our senior term loan facilities. The total notional amount of these interest rate swap agreements is \$400.0 million, with \$200.0 million expiring in October 2017 and \$200.0 million expiring in September 2019. There was no significant hedge ineffectiveness for the three and six months ended June 30, 2015 and 2014. As of June 30, 2015, the fair values of such interest rate swap agreements were reflected as a \$25.1 million liability and were included in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

The estimated fair value of our senior term loans was approximately \$496.9 million at June 30, 2015. Based on dealers' quotes, the estimated fair values of our 5.00% senior notes and 5.25% senior notes were \$810.0 million and \$439.9 million, respectively, at June 30, 2015.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 10.0% on our outstanding variable rate debt, excluding notes payable on real estate, at June 30, 2015, the net impact of the additional interest cost would be a decrease of \$1.0 million on pre-tax income and an increase of \$1.0 million on cash used in operating activities for the six months ended June 30, 2015.

We also have \$24.8 million of notes payable on real estate as of June 30, 2015. Interest costs relating to notes payable on real estate include both interest that is expensed and interest that is capitalized as part of the cost of real estate. If interest rates were to increase by 10.0%, our total estimated interest cost related to notes payable would increase by approximately \$0.1 million for the six months ended June 30, 2015. From time to time, we enter into interest rate swap and cap agreements in order to limit our interest expense related to our notes payable on real estate. If any of these agreements are not designated as effective hedges, then they are marked to market each period with the change in fair value recognized in current period earnings. The net impact on our earnings resulting from gains and/or losses on interest rate swap and cap agreements associated with notes payable on real estate has not been significant.

We also enter into loan commitments that relate to the origination of commercial mortgage loans that will be held for resale. FASB ASC Topic 815 requires that these commitments be recorded at their fair values as derivatives. Included in the consolidated statements of operations set forth in Item 1 of this Quarterly Report on Form 10-Q were net gains of \$6.6 million and \$10.6 million, respectively, for the three and six months ended June 30, 2015, resulting from these loan commitments. The net impact on earnings resulting from gains and/or losses associated with these loan commitments during the three and six months ended June 30, 2014 was not significant. As of June 30, 2015, the fair value of such contracts with three counterparties aggregated to a \$6.6 million asset position, which was included in other current assets in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report on Form 10-Q.

**ITEM 4. CONTROLS AND PROCEDURES**

Rule 13a-15 of the Securities and Exchange Act requires that we conduct an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and we have a disclosure policy in furtherance of the same. This evaluation is designed to ensure that all corporate

**Table of Contents**

disclosure is complete and accurate in all material respects. The evaluation is further designed to ensure that all information required to be disclosed in our SEC reports is accumulated and communicated to management to allow timely decisions regarding required disclosures and recorded, processed, summarized and reported within the time periods and in the manner specified in the SEC's rules and forms. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our Chief Executive Officer and Chief Financial Officer supervise and participate in this evaluation, and they are assisted by our Deputy Chief Financial Officer and Chief Accounting Officer and other members of our Disclosure Committee. In addition to our Deputy Chief Financial Officer and Chief Accounting Officer, our Disclosure Committee consists of our General Counsel, the chief communication officer, senior officers of significant business lines and other select employees.

We conducted the required evaluation, and our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined by Securities Exchange Act Rule 13a-15(e)) were effective as of the end of the period covered by this quarterly report to accomplish their objectives at the reasonable assurance level.

Additionally, we report that no changes in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

There have been no material changes to our legal proceedings as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

**ITEM 1A. RISK FACTORS**

There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We may repurchase shares awarded to grant recipients under our various equity compensation plans to satisfy minimum statutory federal, state and local tax withholding obligations arising from the vesting of their equity awards. The following table presents information with respect to the repurchased shares relating thereto during each calendar month within the fiscal quarter ended June 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share
April 1, 2015 – April 30, 2015	564	\$ 38.71
May 1, 2015 – May 31, 2015		\$
June 1, 2015 – June 30, 2015		\$
<b>Total</b>	<b>564</b>	<b>\$ 38.71</b>

**Table of Contents****ITEM 6. EXHIBITS**

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File No.	Exhibit	Filing Date	
2.1	Stock and Asset Purchase Agreement, dated as of March 31, 2015, by and between CBRE, Inc. and Johnson Controls, Inc.	8-K	001-32205	2.1	4/3/2015	
3.1	Restated Certificate of Incorporation of CBRE Group, Inc. filed on June 16, 2004, as amended by the Certificate of Amendment filed on June 4, 2009 and the Certificate of Ownership and Merger filed on October 3, 2011	10-Q	001-32205	3.1	11/9/2011	
3.2	Second Amended and Restated By-laws of CBRE Group, Inc.	8-K	001-32205	3.2	10/3/2011	
4.1	Form of Class A common stock certificate of CB Richard Ellis Group, Inc.	S-1/A#2	333-112867	4.1	4/30/2004	
4.2(a)	Securityholders Agreement, dated as of July 20, 2001 ( Securityholders Agreement ), by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc., Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG, FS Equity Partners III, L.P., FS Equity Partners International, L.P., Credit Suisse First Boston Corporation, DLJ Investment Funding, Inc., The Koll Holding Company, Frederic V. Malek, the management investors named therein and the other persons from time to time party thereto	SC-13D	005-61805	3	7/30/2001	
4.2(b)	Amendment and Waiver to Securityholders Agreement, dated as of April 14, 2004, by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and the other parties to the Securityholders Agreement	S-1/A	333-112867	4.2(b)	4/30/2004	
4.2(c)	Second Amendment and Waiver to Securityholders Agreement, dated as of November 24, 2004, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement	S-1/A	333-120445	4.2(c)	11/24/2004	
4.2(d)	Third Amendment and Waiver to Securityholders Agreement, dated as of August 1, 2005, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement	8-K	001-32205	4.1	8/2/2005	

**Table of Contents**

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File No.	Exhibit	Filing Date	
4.3(a)	Indenture, dated as of March 14, 2013, among CBRE Group, Inc., CBRE Services, Inc., certain other subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee	10-Q	001-32205	4.4(a)	5/10/2013	
4.3(b)	First Supplemental Indenture, dated as of March 14, 2013, among CBRE Group, Inc., CBRE Services, Inc., certain other subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes Due 2023	10-Q	001-32205	4.4(b)	5/10/2013	
4.3(c)	Second Supplemental Indenture, dated as April 10, 2013 among CBRE/LJM- Nevada, Inc., CBRE Consulting, Inc., CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes due 2023	S-3ASR	333-201126	4.3(c)	12/19/2014	
4.3(d)	Form of 5.00% Senior Notes due 2013 (included in Exhibit 4.3(b))	10-Q	001-32205	4.4(b)	5/10/2013	
4.3(e)	Form of Supplemental Indenture among certain U.S. subsidiaries from time-to-time, CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes due 2023	8-K	001-32205	4.3	4/16/2013	
4.3(f)	Second Supplemental Indenture, dated as of September 24, 2014, among CBRE Group, Inc., CBRE Services, Inc., certain other subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.25% Senior Notes due 2025	8-K	001-32205	4.1	9/26/2014	
4.3(g)	Form of 5.25% Senior Notes due 2025 (included in Exhibit 4.3(f))	8-K	001-32205	4.2	9/26/2014	
4.3(h)	Form of Supplemental Indenture among certain subsidiary guarantors of CBRE Services, Inc., CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.25% Senior Notes due 2025	S-3ASR	333-201126	4.3(h)	12/19/2014	
4.3(i)	Third Supplemental Indenture, dated as of December 12, 2014, among CBRE Group, Inc., CBRE Services, Inc., certain other subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the additional issuance of 5.25% Senior Notes due 2025	8-K	001-32205	4.1	12/12/2014	

**Table of Contents**

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File No.	Exhibit	Filing Date	
10.1	First Amendment to the Second Amended and Restated Credit Agreement, dated as of May 28, 2015, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc., the lenders party thereto and Credit Suisse AG, as administrative agent and collateral agent	8-K	001-32205	10.1	5/29/2015	
10.2	CBRE Group, Inc. Executive Incentive Plan+	8-K	001-32205	10.1	5/21/2015	
11	Statement concerning Computation of Per Share Earnings (filed as Note 13 of the Consolidated Financial Statements)					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002					X
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

In the foregoing description of exhibits, (1) references to CB Richard Ellis Group, Inc. are to CBRE Group, Inc., (2) references to CB Richard Ellis Services, Inc. are to CBRE Services, Inc., and (3) references to CB Richard Ellis, Inc. are to CBRE, Inc., in each case, prior to their respective name changes, which became effective October 3, 2011.

+ Denotes a management contract or compensatory arrangement.

**Table of Contents**

**SIGNATURES**

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

**CBRE GROUP, INC.**

Date: August 10, 2015

/s/ JAMES R. GROCH  
James R. Groch  
*Chief Financial Officer (principal financial officer)*

Date: August 10, 2015

/s/ GIL BOROK  
Gil Borok  
*Chief Accounting Officer (principal accounting officer)*