

CB RICHARD ELLIS GROUP INC

Form 424B4

June 10, 2004

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Filed Pursuant to Rule 424(B)(4)

Registration No. 333-112867

24,000,000 Shares

## CB Richard Ellis Group, Inc.

### Class A Common Stock

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Prior to this offering, there has been no public market for our Class A common stock. Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol CBG.

We are selling 7,726,764 shares of Class A common stock and the selling stockholders are selling 16,273,236 shares of Class A common stock. We will not receive any of the proceeds from the shares of Class A common stock sold by the selling stockholders.

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

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

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to CB Richard Ellis Group</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$19.00	\$1.14	\$17.86	\$17.86

Total	\$ 456,000,000	\$ 27,360,000	\$ 138,000,005	\$ 290,639,995
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Delivery of the shares of Class A common stock will be made on or about June 15, 2004.

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

**Credit Suisse First Boston**

**Citigroup**

**JPMorgan**

**Lehman Brothers**

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

**Goldman, Sachs & Co.**

**Merrill Lynch & Co.**

The date of this prospectus is June 9, 2004.

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

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

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

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

#### **Dealer Prospectus Delivery Obligation**

**Through and including July 4, 2004 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in the offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.**

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**PROSPECTUS SUMMARY**

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

**CB Richard Ellis Group, Inc.**

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

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

**Industry Overview**

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

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



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

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

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

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

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

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

#### **The Americas**

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

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

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



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

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

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

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

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

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

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

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

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

### **Asia Pacific**

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

### **Our Competitive Position**

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

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

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

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

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

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

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

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

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

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

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

### **Our Growth Strategy**

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

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

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

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

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

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

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**The Offering**

Common stock offered by us	7,726,764 shares
Common stock offered by the selling stockholders	16,273,236 shares (or 19,873,236 shares if the underwriters exercise the over-allotment option in full)
Common stock to be outstanding after the offering	68,614,001 shares
New York Stock Exchange symbol	CBG
Use of proceeds	We estimate that our net proceeds from the offering will be \$135.7 million. We intend to use these net proceeds of the offering to redeem all \$38.3 million of our outstanding 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9 <sup>3</sup> / <sub>4</sub> % senior notes due 2010, and to prepay \$16.9 million in principal amount of the term loan under our amended and restated credit agreement. We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.
Dividend Policy	Following the consummation of the offering, we do not expect to pay any dividends on our common stock for the foreseeable future.
Risk Factors	You should carefully read and consider the information set forth under the heading titled "Risk Factors" and all other information set forth in this prospectus before deciding to invest in shares of our common stock.

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

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

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

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

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The number of shares shown to be outstanding after the offering includes 304,634 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share as a result of the completion of the offering. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading titled Description of Capital Stock Warrants.

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

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

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



Table of ContentsIndex to Financial Statements**Summary Historical and Pro Forma Financial Data**

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

Pro Forma			CB Richard Ellis Group				Predecessor Company	
Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,		Year Ended December 31,		Period from February 20 (inception) to December 31,	Period from January 1 to July 20,
2004	2003	2003	2004	2003	2003 (1)	2002	2001 (2)	2001

(Dollars in thousands, except share data)

**Statement of****Operations Data:**

Revenue	\$ 440,992	\$ 393,624	\$ 1,948,827	\$ 440,992	\$ 263,724	\$ 1,630,074	\$ 1,170,277	\$ 562,828	\$ 607,934
Operating (loss) income	(9,272)	(39,078)	17,871	(9,272)	7,779	25,830	96,736	61,178	(17,048)
Interest expense, net	14,338	14,337	55,965	18,372	13,249	81,175	57,229	27,290	18,736
Net (loss) income	(13,888)	(28,287)	(23,643)	(16,568)	(1,347)	(34,704)	18,727	17,426	(34,020)
EPS (3)(4):									
Basic	(0.20)	(0.40)	(0.34)	(0.26)	(0.03)	(0.68)	0.45	0.80	(1.60)
Diluted	(0.20)	(0.40)	(0.34)	(0.26)	(0.03)	(0.68)	0.44	0.79	(1.60)
Weighted average shares (4)(5):									
Basic	70,553,574	70,468,032	70,509,963	62,522,176	41,651,415	50,918,572	41,640,576	21,741,351	21,306,584
Diluted	70,553,574	70,468,032	70,509,963	62,522,176	41,651,415	50,918,572	42,185,989	21,920,915	21,306,584

**Statement of****Cash Flow Data:**

Net cash (used in) provided by operating activities				\$ (87,367)	\$ (70,761)	\$ 63,941	\$ 64,882	\$ 91,334	\$ (120,230)
Net cash used in investing activities				(19,098)	(2,494)	(284,795)	(24,130)	(261,393)	(12,139)
Net cash (used in) provided by financing activities				(2,203)	11,756	303,664	(17,838)	213,831	126,230

**Other Data:**

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EBITDA (6)	\$	10,085	\$	12,273	\$	135,621	10,085	17,013	132,817	130,676	74,930	11,482
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	Pro Forma		CB Richard Ellis Group							
	As of	As of	As of December 31,							
	March 31,	March 31,								
	2004	2004	2003	2002	2001					
(In thousands)										
<b>Balance Sheet Data:</b>										
Cash and cash equivalents	\$	39,254	\$	54,254	\$	163,881	\$	79,701	\$	57,450
Total assets		1,910,831		1,919,735		2,213,481		1,324,876		1,354,512
Long-term debt, including current portion		679,106		801,744		802,705		509,715		517,423
Total liabilities		1,478,077		1,600,715		1,873,896		1,067,920		1,097,693
Total stockholders' equity		425,894		312,160		332,929		251,341		252,523

*(footnotes on following page)*

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*(footnotes for previous page)*

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

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

EBITDA is calculated as follows:

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

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							December 31,		
	2004	2003	2003	2004	2003	2003	2002	2001	2001
(In thousands)									
Net (loss) income	\$ (13,888)	\$ (28,287)	\$ (23,643)	\$ (16,568)	\$ (1,347)	\$ (34,704)	\$ 18,727	\$ 17,426	\$ (34,020)
Add:									
Depreciation and amortization	16,831	48,288	103,385	16,831	6,171	92,622	24,614	12,198	25,656
Interest expense	16,645	16,325	63,531	20,679	14,324	87,216	60,501	29,717	20,303
(Benefit) provision for income taxes	(7,196)	(22,065)	(86)	(8,550)	(1,060)	(6,276)	30,106	18,016	1,110
Less:									
Interest income	2,307	1,988	7,566	2,307	1,075	6,041	3,272	2,427	1,567
<b>EBITDA</b>	<b>\$ 10,085</b>	<b>\$ 12,273</b>	<b>\$ 135,621</b>	<b>\$ 10,085</b>	<b>\$ 17,013</b>	<b>\$ 132,817</b>	<b>\$ 130,676</b>	<b>\$ 74,930</b>	<b>\$ 11,482</b>

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**RISK FACTORS**

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

**Risks Relating to Our Business**

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

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

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

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

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

our ability to attract and retain creditworthy tenants;

the magnitude of defaults by tenants under their respective leases;

our ability to control operating expenses;

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

various uninsurable risks;

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

the nature and extent of competitive properties; and

the real estate market generally.

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

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

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

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

difficulties and costs of staffing and managing international operations;

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

unexpected changes in regulatory requirements;

potentially adverse tax consequences;

the responsibility of complying with multiple and potentially conflicting laws;

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

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

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

political instability; and

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

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

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



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

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

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

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

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

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

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

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

costs.

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

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

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

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

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

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

We are highly leveraged and have significant debt service obligations. For 2003, on a pro forma basis, our interest expense was \$63.5 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

incur or guarantee additional indebtedness;

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

repurchase equity interests;

make investments;

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

sell stock of subsidiaries;

transfer or sell assets;

create liens;

enter into transactions with affiliates;

enter into sale/leaseback transactions; and

enter into mergers or consolidations.

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

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

The restrictions contained in our debt instruments could:

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

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

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

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

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

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

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of December 31, 2003, we had committed \$26.6 million to fund future co-investments. We expect that approximately \$23 million of these commitments will be funded during 2004. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments. These adverse consequences could include damage to our reputation with our

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co-investment partners and clients, as well as the necessity of obtaining alternative funding from other sources that may be on disadvantageous terms for us and the other co-investors. Providing co-investment financing is also a very important part of CBRE Investor's investment management business, which would suffer if we were unable to make these investments. Although our debt instruments contain restrictions that will limit our ability to provide capital to the entities holding direct or indirect interests in co-investments, we may provide this capital in many instances.



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

losses from investments;

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

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

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

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

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

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

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

Due to the broad geographic scope of our operations and the numerous forms of real estate services performed, we are subject to numerous federal, state and local laws and regulations specific to the services performed. For example, the brokerage of real estate sales and leasing transactions requires us to maintain brokerage licenses in each state in which we operate. If we fail to maintain our licenses or conduct brokerage activities without a license, we may be required to pay fines or return commissions received or have licenses suspended. In addition, because the

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size and scope of real estate sales transactions have increased significantly during the past several years, both the difficulty of ensuring compliance with the numerous state licensing regimes and the possible loss resulting from non-compliance have increased. Furthermore, the laws and regulations applicable to our business, both in the United States and in foreign countries, also may change in ways that materially increase the costs of compliance.

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

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

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

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

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

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

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

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

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

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

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

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

failure to meet financial projections for each fiscal quarter;

technological innovations or other trends in our industry;

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the introduction of new services by us or our competitors;

the arrival or departure of key personnel;

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

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

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

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

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

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

Our current stockholders will hold a substantial majority of our outstanding common stock after the offering. After the offering, shares owned by our current stockholders, holders of options and warrants to acquire our common stock and participants in our deferred compensation plan who have stock fund units, assuming the exercise of all options and warrants and the distribution of shares underlying all stock fund units, are expected to constitute approximately 69.5% of our total outstanding common stock. Sales of the shares in the public market, as well as shares we may issue upon the exercise of outstanding options and in connection with future distributions pursuant to stock fund units under our deferred compensation plan, could cause the market price of our common stock to decline significantly. The perception among investors that these sales may occur could produce the same effect.

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

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

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

43,234,027 shares, which are subject to lock-up agreements with the underwriters, will be eligible for sale at various times beginning 180 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701. However, the underwriters may release all or a portion of these shares subject to lock-up agreements at any time without notice.

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

After the offering, stockholders beneficially owning approximately 43.5 million shares of our common stock, including shares that will be issuable upon the automatic exercise of outstanding warrants in connection with the completion of the offering, will have rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file. By exercising these registration rights and selling a large number of shares, these holders could cause the price of our common stock to decline. Furthermore, if we were to include their shares in a registration statement, those sales could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

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

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

After the completion of the offering, affiliates of Blum Capital Partners will beneficially own approximately 42.6% of our outstanding common stock. In addition, pursuant to a securityholders' agreement, these affiliates of Blum Capital Partners, following the offering and subject to the applicable listing rules of the New York Stock Exchange, are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Also pursuant to this agreement, some of our other stockholders will be obligated to vote their shares in favor of the directors nominated by these affiliates of Blum Capital Partners. These other stockholders, collectively, will beneficially own approximately 14.1% of our outstanding common stock after completion of the offering. There are no restrictions in the securityholders' agreement on the ability of these affiliates of Blum Capital Partners to sell their shares to any third party or to assign their rights under the securityholders' agreement in connection with a sale of a majority of their shares to a third party.

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

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

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

sales and dispositions of our assets; and

the amount of debt financing that we incur.

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



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

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

advance notice requirements for stockholder proposals and nominations; and

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

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

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

The net tangible book value per share of our common stock, adjusted to reflect the net proceeds we receive from the offering, will be substantially below the initial public offering price. You therefore will incur immediate and substantial dilution of \$28.53 per share. In addition, as of May 31, 2004, we had options outstanding to acquire 6,887,698 shares of our common stock with a weighted average exercise price of \$5.77 per share and stock units under our deferred compensation plan with 3,129,279 underlying shares of our common stock. To the extent these securities are exercised or otherwise issued, you will incur further dilution. As a result, if we are liquidated, you may not receive the full amount of your investment. See the information under the heading titled Dilution for a more complete description of the dilution you will incur.

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

Affiliates of Credit Suisse First Boston LLC, one of the representatives of the underwriters for the offering, own approximately \$34.8 million in aggregate principal amount of our 16% senior notes due 2011, all of which we expect to redeem with the net proceeds we receive from the offering. In connection with the redemption, they also will receive a premium payment of approximately \$3.4 million, plus accrued but unpaid interest through the redemption date. Affiliates of Credit Suisse First Boston LLC also are the lenders with respect to 3.71% of the term loan under our amended and restated credit agreement. We intend to prepay \$16.9 million in principal amount of the term loan with a portion of the net proceeds we receive from the offering.

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In addition, affiliates of Credit Suisse First Boston LLC are selling stockholders in the offering. As of May 31, 2004, these affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,990,790 shares, or approximately 3.3% of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling 562,212 shares (or 686,586 shares if the underwriters exercise their over-allotment option in full) in the offering, and will receive net proceeds of approximately \$10.0 million (or approximately \$12.3 million if the underwriters exercise their over-allotment option in full). After the offering, these affiliates of Credit Suisse First Boston LLC will beneficially own 2.1% of our common stock (or 1.9% if the underwriters exercise their over-allotment option in full). See the information under the heading titled "Principal and Selling Stockholders" for a more complete description of these affiliates' ownership of our common stock.

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

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

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

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

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**FORWARD-LOOKING STATEMENTS**

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

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

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

changes in general economic and business conditions;

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

competition;

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

foreign currency fluctuations;

future acquisitions;

integration issues relating to acquired businesses;

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

significant variability in our results of operations among quarters;

our substantial leverage and debt service obligations;

our ability to incur additional indebtedness;

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

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

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

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

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

the significant influence of our largest stockholders; and

the other factors described under the heading titled Risk Factors.

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

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**USE OF PROCEEDS**

The net proceeds from the sale of the 7,726,764 shares of common stock offered by us will be approximately \$135.7 million, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of the shares to be sold by the selling stockholders.

The primary purposes of the offering are to create a public market for our common stock, obtain additional equity capital and facilitate future access to public markets. We expect to use our net proceeds from the offering to redeem the remaining \$38.3 million aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and to prepay \$16.9 million in aggregate principal amount of the term loan under our amended and restated credit agreement. The amended and restated credit agreement governing our senior secured credit facilities currently would limit our ability to complete such redemptions or prepayment. We have entered into an amendment to such agreement that will be effective upon the completion of the offering and, among other things, will permit such redemptions and prepayment to be completed.

In addition to repayment of the outstanding \$38.3 million principal amount, the redemption of the 16% senior notes will require payment of a \$3.7 million premium, plus accrued but unpaid interest through the date of redemption. Affiliates of Credit Suisse First Boston LLC, one of the representatives of the underwriters of the offering, hold a substantial majority of the outstanding 16% senior notes and, as a result, will receive a payment of approximately \$38.2 million, representing principal and premium, in connection with the redemption of their notes, together with accrued but unpaid interest through the date of redemption. The redemption of \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 will require payment of a \$6.8 million premium, plus accrued but unpaid interest through the date of redemption. The prepayment of \$16.9 million in principal amount of our term loan also will require payment of any accrued but unpaid interest through the date of prepayment. Affiliates of Credit Suisse First Boston LLC are the lenders with respect to 3.71% of this term loan.

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

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

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**DIVIDEND POLICY**

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

**Table of Contents****Index to Financial Statements****CAPITALIZATION**

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

on an actual basis; and

on an as adjusted basis, giving effect to:

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

our sale of 7,726,764 shares of our common stock in the offering, after deducting underwriting discounts and estimated expenses payable by us;

the redemption by us of the remaining \$38.3 million aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and the prepayment of \$16.9 million in principal amount of the term loan under our amended and restated credit agreement; and

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

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

	<b>As of March 31, 2004</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(In thousands)</b>	
Cash and cash equivalents	\$ 54,254	\$ 39,254
Long-term debt, including current portion:		
CB Richard Ellis Group:		
16% senior notes due 2011 (1)	\$ 35,756	\$
CB Richard Ellis Services:		
Revolving credit facility (2)	13,250	13,250
Senior secured term loan (3)	295,000	278,118
9 <sup>3</sup> / <sub>4</sub> % senior notes due 2010	200,000	130,000
11 <sup>1</sup> / <sub>4</sub> % senior subordinated notes due 2011 (4)	226,236	226,236



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Other long-term debt	44,752	44,752
	<u>          </u>	<u>          </u>
Total long-term debt, including current portion	814,994	692,356
	<u>          </u>	<u>          </u>
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; no shares authorized, no shares issued or outstanding, actual; and 25,000,000 shares authorized, no shares issued or outstanding, as adjusted		
Class A common stock, \$0.01 par value per share; 325,000,000 shares authorized, 7,578,976 shares issued and outstanding (including treasury shares), actual; and 325,000,000 shares authorized, 69,019,889 shares issued and outstanding (including treasury shares), as adjusted (5)(6)		
	76	690
Class B common stock, \$0.01 par value per share; 100,000,000 authorized, 53,409,556 shares issued and outstanding, actual; and no shares authorized, no shares issued or outstanding, as adjusted (7)		
	534	
Additional paid-in capital	361,636	497,256
Notes receivable from sale of stock	(4,388)	(4,388)
Accumulated deficit	(15,119)	(37,085)
Accumulated other comprehensive loss	(28,267)	(28,267)
Treasury stock at cost, 405,888 shares	(2,312)	(2,312)
	<u>          </u>	<u>          </u>
Total stockholders' equity	312,160	425,894
	<u>          </u>	<u>          </u>
Total capitalization	\$ 1,127,154	\$ 1,118,250
	<u>          </u>	<u>          </u>

(footnotes on following page)

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*(footnotes for previous page)*

- (1) The amount shown for our actual capitalization is net of unamortized discount of \$2.6 million associated with the issuance of our 16% senior notes due 2011.
- (2) As of March 31, 2004, there was \$13.3 million outstanding under our revolving credit facility and an aggregate of \$12.6 million of letters of credit drawn under our revolving credit facility, which reduces the amount we may borrow under our revolving credit facility. Borrowings of up to \$90.0 million are available at any one time for general corporate purposes under our revolving credit facility. In addition, we expect that our new amended and restated credit agreement, as will be effective following the offering, will include an incremental revolving credit facility of \$60.0 million.
- (3) Includes current portion of \$10.0 million due and payable on or prior to March 31, 2005. Our new amended and restated credit agreement, as will be effective following the offering, will permit us to increase the term loan by up to \$25.0 million, subject to the satisfaction of customary conditions.
- (4) The amount shown for our actual and as adjusted capitalization is net of unamortized discount of \$2.8 million associated with the issuance of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011. Neither amount shown reflects our purchase of \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May and June 2004.
- (5) The number of shares of Class A common stock outstanding after the offering excludes as of March 31, 2003:
  - 6,887,698 shares subject to options issued under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share;
  - 3,129,279 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable in connection with future distributions under the plan pursuant to elections made by plan participants or distributions made by us; and
  - 6,928,406 additional shares available for future issuance under our 2004 stock incentive plan that we expect to adopt prior to the completion of the offering.
- (6) The number of shares of Class A common stock outstanding on an as adjusted basis includes 304,634 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share in connection with the offering. For additional information regarding these warrants, including the cashless exercise terms, you should read the description of these warrants under the heading *Description of Capital Stock Warrants*.
- (7) The number of authorized shares of Class B common stock after the offering assumes the filing and effectiveness of an amendment and restatement of our certificate of incorporation immediately after the completion of the offering.

**Table of Contents****Index to Financial Statements****DILUTION**

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

Our net tangible book deficit as of March 31, 2004 was \$761.3 million, or \$12.57 per share of Class A and Class B common stock. Net tangible book deficit per share before the offering is equal to the total book value of tangible assets less total liabilities, divided by the number of shares of Class A and Class B common stock outstanding as of March 31, 2004, which number of shares is adjusted to reflect the 3-for-1 split of our outstanding Class A and Class B common stock on May 4, 2004, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock on June 7, 2004. After giving effect to the sale of 7,726,764 shares of our common stock in the offering and the automatic cashless exercise of warrants in connection with the offering, in each case after deducting underwriting discounts and commissions and estimated offering expenses payable by us and giving effect to the other transactions described under the heading Use of Proceeds, the pro forma net tangible book deficit as of March 31, 2004 would have been \$653.6 million, or \$9.53 per share. This represents an immediate increase in pro forma net tangible book value per share of \$3.04 to existing stockholders and dilution in net tangible book value per share of \$28.53 to new investors purchasing shares in the offering. The following table summarizes this per share dilution:

Initial public offering price per share	\$ 19.00
Net tangible book deficit per share as of March 31, 2004	\$ (12.57)
Decrease in pro forma net tangible book deficit per share attributable to the offering	3.04
	<u>          </u>
Pro forma net tangible book deficit per share after the offering	(9.53)
	<u>          </u>
Dilution in net tangible book value per share to new investors	\$ 28.53
	<u>          </u>

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

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	(In thousands)		(In thousands)		
Existing stockholders	60,887	88.7%	\$ 357,226	70.9%	\$ 5.87
New investors (1)	7,727	11.3	146,809	29.1	19.00
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	
Total	68,614	100.0%	\$ 504,035	100.0%	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	

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- (1) The 24,000,000 shares to be sold in the offering include 16,273,236 shares to be sold by existing stockholders. In addition, the underwriters have an option to purchase 3,600,000 additional shares from existing stockholders to cover over-allotments of shares.

As of May 31, 2004, there were an aggregate of (1) 6,887,698 shares of common stock issuable upon the exercise of outstanding options granted under our 2001 stock incentive plan at a weighted average exercise price of \$5.77 per share, of which options to purchase 1,620,540 shares were then exercisable; and (2) 3,129,279 shares underlying outstanding stock fund units under our deferred compensation plan, which shares are issuable

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

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

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(In thousands)		(In thousands)		
Existing stockholders (1)	60,887	77.4%	\$ 357,226	63.6%	\$ 5.87
Option holders	6,888	8.8	39,742	7.1	5.77
Stock fund unit holders	3,129	4.0	18,056	3.2	5.77
New investors	7,727	9.8	146,809	26.1	19.00
<b>Total</b>	<b>78,631</b>	<b>100.0%</b>	<b>\$ 561,833</b>	<b>100.0%</b>	

- (1) The 24,000,000 shares to be sold in the offering include 16,273,236 shares to be sold by existing stockholders. In addition, the underwriters have an option to purchase 3,600,000 additional shares from existing stockholders to cover over-allotments of shares.

Assuming the exercise of the foregoing outstanding options and the distribution of shares underlying the foregoing stock fund units, dilution to new investors in net tangible book value per share would be \$27.31.

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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

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

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

**Insignia Acquisition and Related Transactions**

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

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

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

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

**The Offering**

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

the offering and the application of net proceeds of the offering to (1) the redemption of the remaining \$38.3 million outstanding principal amount of our 16% senior notes due 2011, including payment of a \$3.7 million premium in connection with such redemption, (2) the redemption of \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, including payment of a \$6.8 million premium in connection with such redemption, and (3) the prepayment of \$16.9 million in principal amount of the term loan under our amended and restated credit agreement.

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

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

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

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

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

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

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

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

the open market purchases by us of \$21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in May and June 2004, and the payment of premiums of \$3.1 million in connection with such purchases.

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



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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2004

(In thousands, except share data)

	Historical	Pro Forma Adjustments	Pro Forma As Adjusted
Revenue	\$ 440,992	\$	\$ 440,992
Costs and expenses:			
Cost of services	224,222		224,222
Operating, administrative and other	199,251		199,251
Depreciation and amortization	16,831		16,831
Merger-related charges	9,960		9,960
	<u>450,264</u>		<u>450,264</u>
Operating loss	(9,272)		(9,272)
Equity income from unconsolidated subsidiaries	2,526		2,526
Interest income	2,307		2,307
Interest expense	20,679	(4,034)(a)	16,645
	<u>(25,118)</u>	<u>4,034</u>	<u>(21,084)</u>
Loss from continuing operations before benefit for income taxes	(25,118)	4,034	(21,084)
Benefit for income taxes	(8,550)	1,354 (b)	(7,196)
	<u>(16,568)</u>	<u>2,680</u>	<u>(13,888)</u>
Loss from continuing operations	\$ (16,568)	\$ 2,680	\$ (13,888)
	<u>(0.26)</u>		<u>(0.20)</u>
Basic and diluted loss per share from continuing operations	\$ (0.26)		\$ (0.20)
Weighted average shares outstanding for basic and diluted loss per share	62,522,176		70,553,574 (c)

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

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

	<b>(In thousands)</b>
Historical interest expense on our 16% senior notes	\$ (1,537)
Historical amortization of deferred financing costs related to our 16% senior notes	(143)
Historical amortization of discount related to our 16% senior notes	(284)
Historical interest expense on portion of our 9 <sup>3</sup> / <sub>4</sub> % senior notes redeemed	(1,706)
Historical amortization of deferred financing costs related to portion of our 9 <sup>3</sup> / <sub>4</sub> % senior notes redeemed	(128)
Historical interest expense on portion of our senior secured term loan prepaid	(189)
Historical amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(47)
<b>Net decrease in interest expense</b>	<b>\$ (4,034)</b>

- (b) Represents the tax effect of the pro forma adjustments included in note (a) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (c) In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,726,764 shares of Class A common stock that we expect to issue and sell in the offering and 304,634 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2004.

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2003

(In thousands, except share data)

	Historical		Pro Forma Adjustments			Pro Forma As Adjusted
	CB Richard Ellis Group	Insignia	Disposition of Real Estate Investment Assets (a)	Insignia Acquisition	The Offering	
Revenue	\$ 263,724	\$ 132,779	\$ (2,879)	\$	\$	\$ 393,624
Costs and expenses:						
Cost of services	123,599					123,599
Operating, administrative and other	126,175					126,175
Cost and expenses Insignia		139,815	(4,228)	1,023 (b)		134,640
				(1,970)(c)		
Depreciation and amortization	6,171	4,425	(406)	(836)(d)		48,288
				38,934 (e)		
	255,945	144,240	(4,634)	37,151		432,702
Operating income (loss)	7,779	(11,461)	1,755	(37,151)		(39,078)
Equity income (loss) from unconsolidated subsidiaries	3,063	(3,081)	3,081			3,063
Interest income	1,075	913				1,988
Interest expense	14,324	2,341	(415)	5,086 (f)	(5,011)(h)	16,325
(Loss) income from continuing operations before (benefit) provision for income taxes	(2,407)	(15,970)	5,251	(42,237)	5,011	(50,352)
(Benefit) provision for income taxes	(1,060)	(7,757)	2,100	(16,895)(g)	1,547 (i)	(22,065)
(Loss) income from continuing operations	\$ (1,347)	\$ (8,213)	\$ 3,151	\$ (25,342)	\$ 3,464	\$ (28,287)
Basic and diluted loss per share from continuing operations	\$ (0.03)					\$ (0.40)
Weighted average shares outstanding for basic loss and diluted per share	41,651,415					70,468,032 (j)

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

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

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

<u>Amortization Period</u>	<u>Cost</u>	<b>Pro Forma Amortization for the Three Months Ended March 31, 2003 (Assumes 1/1/03)</b>
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			<u>Acquisition Date)</u>	
Backlog	Various	\$ 72,503	\$ 38,785	
Management contracts	Various	4,611	277	
Other	Various	5,808	465	
Total		82,922	39,527	39,527
Pro forma adjustment to amortization expense				\$ 38,934

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

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

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

	<b>(In thousands)</b>
Historical interest expense on our 16% senior notes	\$ (2,700)
Historical amortization of deferred financing costs related to our 16% senior notes	(143)
Historical amortization of discount related to our 16% senior notes	(66)
Interest expense on portion of our 9¾% senior notes redeemed	(1,706)
Amortization of deferred financing costs related to portion of our 9¾% senior notes redeemed	(128)
Interest expense on portion of our senior secured term loan prepaid	(239)
Amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(29)
<b>Net decrease in interest expense</b>	<b>\$ (5,011)</b>

- (i) Represents the tax effect of the pro forma adjustments included in note (h) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (j) The pro forma number of weighted average shares number gives effect to the 2,363,598 shares of Class A common stock of CB Richard Ellis Group and the 18,421,621 shares of Class B common stock of CB Richard Ellis Group issued in connection with the Insignia

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acquisition, as though such shares were issued on January 1, 2003. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,726,764 shares of Class A common stock that we expect to issue and sell in the offering and 304,634 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2003.



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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

For the Year Ended December 31, 2003

(In thousands, except share data)

	Historical		Pro Forma Adjustments			Pro Forma As Adjusted
	CB Richard Ellis Group for the Year Ended December 31, 2003	Insignia from January 1, 2003 to July 23, 2003	Disposition of Real Estate Investment Assets by Insignia (a)	Insignia Acquisition and Related Transactions	The Offering	
Revenue	\$ 1,630,074	\$ 325,600	\$ (6,847)	\$	\$	\$ 1,948,827
Costs and expenses:						
Cost of services	796,408					796,408
Operating, administrative and other	678,397					678,397
Cost and expenses Insignia		320,319	(8,039)	3,669 (b)		315,949
Depreciation and amortization	92,622	10,148	(792)	(2,134)(c)		103,385
				3,541 (d)		
Merger-related charges	36,817	21,627	(12,832)	(8,795)(e)		36,817
	<u>1,604,244</u>	<u>352,094</u>	<u>(21,663)</u>	<u>(3,719)</u>		<u>1,930,956</u>
Operating income (loss)	25,830	(26,494)	14,816	3,719		17,871
Equity income (loss) from unconsolidated subsidiaries	14,365	(4,439)	4,439			14,365
Interest income	6,041	1,924		(399)(f)		7,566
Interest expense	87,216	6,045	(841)	196 (g)	(29,085)(i)	63,531
(Loss) income from continuing operations before (benefit) provision for income taxes	(40,980)	(35,054)	20,096	3,124	29,085	(23,729)
(Benefit) provision for income taxes	(6,276)	(12,104)	8,239	1,250 (h)	8,805 (j)	(86)
(Loss) income from continuing operations	<u>\$ (34,704)</u>	<u>\$ (22,950)</u>	<u>\$ 11,857</u>	<u>\$ 1,874</u>	<u>\$ 20,280</u>	<u>\$ (23,643)</u>
Basic and diluted loss per share from continuing operations	\$ (0.68)					\$ (0.34)

Weighted average shares outstanding for basic and diluted loss per share	50,918,572	70,509,963 (k)
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The accompanying notes are an integral part of these financial statements.

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

**For the Year Ended December 31, 2003**

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

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

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

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Total	82,922	65,407	60,419	4,988	4,988
Pro forma adjustment to amortization expense					\$ 3,541

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

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

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

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

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

	<b>(In thousands)</b>
Historical interest expense on our 16% senior notes	\$ (13,203)
Historical amortization of deferred financing costs related to our 16% senior notes	(2,350)
Historical amortization of discount related to our 16% senior notes	(2,262)
Historical premiums on early redemptions of our 16% senior notes	(2,880)
Interest expense on portion of our 9¾% senior notes redeemed	(6,825)
Amortization of deferred financing costs related to portion of our 9¾% senior notes redeemed	(419)
Interest expense on portion of our senior secured term loan prepaid	(1,000)
Amortization of deferred financing costs related to portion of our senior secured term loan prepaid	(146)
<b>Net decrease in interest expense</b>	<b>\$ (29,085)</b>

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- (j) Represents the tax effect of the pro forma adjustments included in note (i) above at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
  
- (k) The pro forma weighted average shares number gives effect to the 2,363,598 shares of Class A common stock of CB Richard Ellis Group and the 18,421,621 shares of Class B common stock of CB Richard Ellis Group issued in connection with the Insignia acquisition, as though such shares were issued on January 1, 2003. In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio. Additionally, the pro forma weighted average shares number gives effect to 7,726,764 shares of Class A common stock that we expect to issue and sell in the offering and 304,634 shares of Class A common stock that will be issued by us as a result of the automatic cashless exercise of outstanding warrants in connection with the offering, in each case as though such shares were issued on January 1, 2003.

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## CB RICHARD ELLIS GROUP, INC.

## UNAUDITED PRO FORMA BALANCE SHEET

As of March 31, 2004

(In thousands, except share data)

	<u>Historical</u>	<u>Pro Forma Adjustments for the Offering</u>	<u>Pro Forma As Adjusted</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 54,254	\$ (15,000)(a)(b)(c)	\$ 39,254
Restricted cash	15,165		15,165
Receivables, less allowance for doubtful accounts of \$16,408	272,574		272,574
Warehouse receivable	72,725		72,725
Prepaid expenses	28,899		28,899
Deferred tax assets, net	65,438	12,148 (d)	77,586
Other current assets	33,705		33,705
	<u>542,760</u>	<u>(2,852)</u>	<u>539,908</u>
Total current assets			
Property and equipment, net	117,340		117,340
Goodwill	825,679		825,679
Other intangible assets, net of accumulated amortization of \$82,362	123,694		123,694
Deferred compensation assets	81,111		81,111
Investments in and advances to unconsolidated subsidiaries	73,354		73,354
Deferred tax assets, net	30,216		30,216
Other assets, net	125,581	(6,052)(e)	119,529
	<u>\$ 1,919,735</u>	<u>\$ (8,904)</u>	<u>\$ 1,910,831</u>
Total assets			

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

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	<u>Historical</u>	<u>Pro Forma Adjustments for the Offering</u>	<u>Pro Forma As Adjusted</u>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 188,725	\$	\$ 188,725
Compensation and employee benefits payable	143,997		143,997
Accrued bonus and profit sharing	83,161		83,161
Short-term borrowings:			
Warehouse line of credit	72,725		72,725
Revolving and swingline credit facility	13,250		13,250
Other	27,846		27,846
	<u>113,821</u>		<u>113,821</u>
Total short-term borrowings	113,821		113,821
Current maturities of long-term debt	11,252		11,252
Other current liabilities	12,642		12,642
	<u>553,598</u>		<u>553,598</u>
Total current liabilities	553,598		553,598
Long-Term Debt:			
Senior secured term loan	285,000	(16,882)(a)	268,118
9¾% senior notes	200,000	(70,000)(a)	130,000
11¼% senior subordinated notes, net of unamortized discount of \$2,764	226,236		226,236
16% senior notes, net of unamortized discount of \$2,560	35,756	(35,756)(a)(f)	
Other long-term debt	43,500		43,500
	<u>790,492</u>	<u>(122,638)</u>	<u>667,854</u>
Total long-term debt	790,492	(122,638)	667,854
Deferred compensation liability	144,996		144,996
Pension liability	38,917		38,917
Other liabilities	72,712		72,712
	<u>1,600,715</u>	<u>(122,638)</u>	<u>1,478,077</u>
Total liabilities	1,600,715	(122,638)	1,478,077
Minority interest	6,860		6,860
Commitments and contingencies			
Stockholders Equity:			
Preferred stock, \$0.01 par value per share; no shares authorized, no shares issued or outstanding, actual; and 25,000,000 shares authorized, no shares issued or outstanding, pro forma as adjusted			
Class A common stock, \$0.01 par value per share; 325,000,000 shares authorized, 7,578,976 shares issued and outstanding actual; and 325,000,000 shares authorized, 69,019,889 shares issued and outstanding, pro forma as adjusted			
	76	614 (a)(g)(h)	690
Class B common stock; \$0.01 par value per share; 100,000,000 shares authorized, 53,409,556 shares issued and outstanding, actual; and no shares authorized, no shares issued or outstanding, pro forma as adjusted			
	534	(534)(g)(i)	
Additional paid-in capital	361,636	135,620 (a)(h)	497,256
Notes receivable from sale of stock	(4,388)		(4,388)
Accumulated deficit	(15,119)	(21,966)(b)(c)(d)(e)(f)	(37,085)
Accumulated other comprehensive loss	(28,267)		(28,267)
Treasury stock at cost, 405,888 shares	(2,312)		(2,312)



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Total stockholders' equity	<u>312,160</u>	<u>113,734</u>	<u>425,894</u>
Total liabilities and stockholders' equity	<u>\$ 1,919,735</u>	<u>\$ (8,904)</u>	<u>\$ 1,910,831</u>

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

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

	<b>(In thousands)</b>
Proceeds from the offering	\$ 146,809
Less: estimated expenses related to the offering	(11,109)
<b>Net proceeds related to the offering</b>	<b>135,700</b>
Less: redemption of our 16% senior notes	(38,316)
Less: premium in connection with redemption of our 16% senior notes	(3,677)
Less: partial redemption of our 9 <sup>3/4</sup> % senior notes	(70,000)
Less: premium in connection with redemption of our 9 <sup>3/4</sup> % senior notes	(6,825)
Less: prepayment of portion of senior secured term loan	(16,882)
<b>Net decrease in cash and cash equivalents</b>	<b>\$</b>

- (b) Includes \$10.5 million of premium payments in connection with both the full redemption of the 16% senior notes and the partial redemption of our 9<sup>3/4</sup>% senior notes using the net proceeds from the offering.
- (c) Includes the impact of the payment of bonuses in connection with the offering in an aggregate amount of \$15.0 million to be paid to several of our non-executive real estate services employees pursuant to their employment agreements as a result of completion of the offering.
- (d) Represents the tax effect of the pro forma adjustments at the respective statutory rates, excluding some items that are permanently non-deductible for tax purposes.
- (e) Represents the write-off of unamortized deferred financing costs associated with the redemption of the remaining outstanding principal amount of our 16% senior notes, the partial redemption of our 9<sup>3/4</sup>% senior notes and the prepayment of a portion of our senior secured term loan with proceeds from the offering.
- (f) Represents the write-off of unamortized discount associated with the redemption of the remaining outstanding principal amount of our 16% senior notes, the partial redemption of our 9<sup>3/4</sup>% senior notes and the prepayment of a portion of our senior secured term loan with proceeds from the offering.
- (g) In connection with the offering, all outstanding shares of our Class B common stock will be converted into shares of Class A common stock at a 1-for-1 ratio.

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- (h) Reflects 7,726,764 shares of Class A common stock that we expect to issue in connection with the offering. Additionally, includes 304,634 shares that will be issued by us in connection with the automatic cashless exercise of outstanding warrants to acquire 708,019 shares of our common stock at an exercise price of \$10.825 per share as a result of the completion of the offering.
- (i) The number of authorized shares of Class B common stock after the offering assumes the filing and effectiveness of an amendment and restatement of our certificate of incorporation immediately after the completion of the offering.

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

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

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

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

(footnotes on following page)

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*(footnotes for previous page)*

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

- (1) The actual results for the year ended December 31, 2003 include the activities of Insignia from July 23, 2003, the date Insignia was acquired by our wholly owned subsidiary, CB Richard Ellis Services.
- (2) The results for the period from February 20 (inception) to December 31, 2001 include the activities of CB Richard Ellis Services from July 20, 2001, the date we acquired CB Richard Ellis Services.
- (3) EPS represents (loss) earnings per share. See (loss) earnings per share information in note 16 to our audited consolidated financial statements, included elsewhere in this prospectus.
- (4) EPS and weighted average shares for our predecessor company do not reflect the 3-for-1 stock split of our outstanding Class A common stock and Class B common stock effected on May 4, 2004, or the 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock effected on June 7, 2004 because our predecessor was a different legal entity.
- (5) For the period from February 20 (inception) to December 31, 2001, the 21,741,351 and the 21,920,915 shares represent the weighted average shares outstanding for basic and diluted earnings per share, respectively. These balances take into consideration the lower number of shares outstanding prior to July 20, 2001, the date we acquired CB Richard Ellis Services.
- (6) EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

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

EBITDA is calculated as follows:

**CB Richard Ellis Group**

**Predecessor Company**

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

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

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

**Overview**

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

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

***Macroeconomic Conditions***

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

During 2002 and 2001, we were adversely affected by the slowdown in the U.S. economy, which negatively impacted the commercial real estate market generally. This caused a decline in our leasing activities within the United States. Moreover, in part because of the terrorist attacks on September 11, 2001 and the subsequent conflict with Iraq, the economic climate in the United States became very uncertain, which had an adverse effect on commercial real estate market conditions and, in turn, our operating results for 2002 and 2001. During 2003, economic



conditions in the United States improved, which positively impacted the commercial real estate market generally. This caused an improvement in our Americas segment's sales and leasing activities. We expect this trend to continue in the near term.

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

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

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

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

### ***International Operations***

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



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

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

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

### ***Leverage***

We are highly leveraged and have significant debt service obligations. Although our management believes that the incurrence of this long-term indebtedness has been important in the development of our business, including facilitating our acquisition of Insignia Financial Group in 2003, the cash flow necessary to service this debt is not available for other general corporate purposes, which may limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry. Our management seeks to mitigate this exposure both through the refinancing of debt when available on attractive terms and through selective repayment and retirement of indebtedness. For example, we refinanced our senior secured credit facilities in October 2003 to obtain more attractive interest rates and other terms, redeemed \$30.0 million in aggregate principal amount of our 16% senior notes in late 2003 and repurchased \$21.6 million in aggregate principal amount of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes in the open market during May and June 2004. In addition, we expect to use the net proceeds we receive from the offering to redeem all \$38.3 million in aggregate principal amount of the remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and to prepay \$16.9 million in principal amount of the term loan under our amended and restated credit agreement. Notwithstanding such activities, our level of indebtedness and the operating and financial restrictions in our debt agreements both place significant constraints on the operation of our business.

### **Basis of Presentation**

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

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

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

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

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

***Segment Reporting***

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

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

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

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

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

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Interest expense	<u>87,216</u>	<u>5.4</u>	<u>60,501</u>	<u>5.2</u>	<u>50,020</u>	<u>4.3</u>
(Loss) income before (benefit) provision for income taxes	<u>(40,980)</u>	<u>(2.5)</u>	<u>48,833</u>	<u>4.2</u>	<u>2,532</u>	<u>0.2</u>
(Benefit) provision for income taxes	<u>(6,276)</u>	<u>(0.4)</u>	<u>30,106</u>	<u>2.6</u>	<u>19,126</u>	<u>1.6</u>
Net (loss) income	<u>\$ (34,704)</u>	<u>(2.1)%</u>	<u>\$ 18,727</u>	<u>1.6%</u>	<u>\$ (16,594)</u>	<u>(1.4)%</u>
EBITDA	<u>\$ 132,817</u>	<u>8.1%</u>	<u>\$ 130,676</u>	<u>11.2%</u>	<u>\$ 86,412</u>	<u>7.4%</u>

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



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

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

EBITDA is calculated as follows:

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

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

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Interest income	6,041	3,272	3,994
	<u>          </u>	<u>          </u>	<u>          </u>
EBITDA	\$ 132,817	\$ 130,676	\$ 86,412
	<u>          </u>	<u>          </u>	<u>          </u>

*Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

during the year ended December 31, 2003.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

**Segment Operations**

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

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

	2017	2016	2015	2014
<b>Asia Pacific</b>				
Revenue	\$ 28,444	100.0%	\$ 18,296	100.0%
Costs and expenses:				
Cost of services	14,101	49.6	9,043	49.4
Operating, administrative and other	13,019	45.8	11,320	61.9
Depreciation and amortization	816	2.8	736	4.0
Operating income (loss)	\$ 508	1.8%	\$ (2,803)	(15.3)%
EBITDA	\$ 1,608	5.7%	\$ (2,104)	(11.5)%

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

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

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

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

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

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

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<b>EMEA</b>			
Operating (loss) income	\$ (20,490)	\$ 17,287	\$ 9,292
Add:			
Depreciation and amortization	31,287	4,579	6,492
Equity (loss) income from unconsolidated subsidiaries	(188)	82	2
	<u>          </u>	<u>          </u>	<u>          </u>
EBITDA	\$ 10,609	\$ 21,948	\$ 15,786
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Asia Pacific</b>			
Operating income (loss)	\$ 11,213	\$ 6,581	\$ (2,128)
Add:			
Depreciation and amortization	3,119	3,077	3,910
Equity income from unconsolidated subsidiaries	373	819	618
	<u>          </u>	<u>          </u>	<u>          </u>
EBITDA	\$ 14,705	\$ 10,477	\$ 2,400
	<u>          </u>	<u>          </u>	<u>          </u>

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***Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003***

*The Americas*

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

*EMEA*

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

*Asia Pacific*



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

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

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

*The Americas*

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

*EMEA*

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



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*Asia Pacific*

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

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

*The Americas*

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

*EMEA*

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

*Asia Pacific*

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

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

### **Liquidity and Capital Resources**

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

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

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

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan in 2008, our 9¾% senior notes in 2010 and our 16% senior notes and 11¼% senior subordinated notes in 2011. We expect to use a portion of the net proceeds we receive from the offering to redeem all of our remaining outstanding 16% senior notes and \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010 and to prepay \$16.9 million in principal amount of the term loan under our amended and restated credit agreement. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay the other amounts of our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot assure you that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

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



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

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

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

(1) Includes capital lease obligations, but does not include the purchases by us of \$21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market in May and June 2004, the expected refinancing of our senior secured credit facilities in connection with the completion of the offering, the expected redemption with a portion of the proceeds we receive from the offering of \$38.3 million in aggregate principal amount of our 16% notes and \$70.0 million in aggregate principal amount of our 9 3/4% senior notes or the expected prepayment with a portion of the proceeds we receive from the offering of \$16.9 million of our term loan.

(2) See note 13 to our audited consolidated financial statements included elsewhere in this prospectus.

(3) See note 11 to our audited consolidated financial statements included elsewhere in this prospectus.



- (4) Because these obligations are related, either wholly or partially, to the future retirement of our employees and such retirement dates are not predictable, an undeterminable portion of this amount will be paid in future years.

***Historical Cash Flows***

*Operating Activities*

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

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

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

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

*Investing Activities*

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

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

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

*Financing Activities*

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

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

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

### *Indebtedness*

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

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

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

In order to partially fund our acquisition of CB Richard Ellis Services in 2001, we entered into a credit agreement with Credit Suisse First Boston, or CSFB, and other lenders and borrowed \$235.0 million of term loans on July 20, 2001. To partially fund our acquisition of Insignia Financial Group in 2003, we amended and restated this credit agreement and borrowed an aggregate of an additional \$75.0 million of term loan on July 23, 2003. On October 14, 2003, we refinanced all of the outstanding loans under our amended and restated credit agreement and entered into a new amended and restated credit agreement. On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provides for the refinancing of all outstanding amounts under our current credit agreement and the amendment and restatement of our credit agreement upon the completion of the offering. The new amended and restated credit agreement generally will permit us, among other things, to use the net proceeds we receive from the offering in the manner described in this prospectus, including the redemption of all \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9<sup>3/4</sup>% senior notes due 2010 and the prepayment of \$16.9 million in principal amount of term loan under our amended and restated credit agreement. The new amended and restated credit agreement also will include the following: (1) a term loan facility of \$295.0 million, requiring quarterly principal payments of \$2.95 million through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$90.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. We expect that the new amended and restated credit agreement also will include an incremental revolving facility of \$60.0 million that will mature on March 31, 2009. The new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, subject to the satisfaction of customary conditions. The \$90.0 million revolving credit facility requires the repayment of any outstanding balance for a period of 45 consecutive days commencing on any day in the month of December of each year as determined by us. We repaid our revolving credit facility as of July 23, 2003 and November 5, 2002, and at December 31, 2003 and 2002, we had no outstanding amounts under our revolving credit facility. At March 31, 2004, however, we had \$13.3 million outstanding under our revolving credit facility.

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

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base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. In addition, we are required to pay a revolving credit facility fee based on the total amount of the unused commitment, including the \$60.0 million incremental revolving credit facility. The borrowings under the amended and restated credit agreement are jointly and severally guaranteed by us and substantially all of our domestic subsidiaries and are secured by a pledge of substantially all of our assets. The total amount outstanding under the term loan facility included in senior secured term loans and current maturities of long-term debt in the our consolidated balance sheets included elsewhere in this prospectus was \$295.0 million and \$297.5 million as of March 31, 2004 and December 31, 2003, respectively. We expect to use a portion of the net proceeds we receive from the offering to prepay \$16.9 million in principal amount of the term loan under our amended and restated credit agreement.

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

In order to partially finance our acquisition of CB Richard Ellis Services in 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount, on June 7, 2001. CB Richard Ellis Services assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the merger of Blum CB with and into CB Richard Ellis Services on July 20, 2001. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we may redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11¼% senior subordinated notes included in our consolidated balance sheets included elsewhere in this prospectus, net of unamortized discount, was \$226.2 million as of March 31, 2004 and December 31, 2003, respectively. In May and June 2004, we purchased \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid \$3.1 million of premiums in connection with these purchases.

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

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

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

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

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

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

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

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of credit equaling \$400.0 million, which expired on August 30, 2003. By amendment on November 14, 2003, the agreement was modified to provide a revolving line of credit increase of \$50.0 million

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

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

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

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

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



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

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

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

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

#### ***Pension Liability***

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

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

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset

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agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of March 31, 2004, an aggregate of approximately \$10.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island Fund agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a

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

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

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

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

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

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



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#### **Seasonality**

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

#### **Inflation**

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

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

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

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

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

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

### *Principles of Consolidation*

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

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

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

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

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

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

### **New Accounting Pronouncements**

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

In December 2003, the FASB issued a revised version of FIN 46, or FIN 46R. Among other things, the revision clarifies the definition of a variable interest entity, exempts most entities that are businesses from the scope of FIN 46R and delays the effective date of the revised standard

to no later than the end of the first reporting period ending after December 15, 2003 for special purpose entities and March 15, 2004 for all other types of entities. The adoption of this interpretation has not had, and is not expected to have, a material impact on our financial position or results of operations.



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

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

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

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

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

#### *Exchange Rates*

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

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

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

*Interest Rates*

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

<b>Year of Maturity</b>	<b>Fixed Rate</b>	<b>One-Month Yen LIBOR +3.5%</b>	<b>One-Month LIBOR +1.0%</b>	<b>Six-Month LIBOR +3.25%</b>	<b>Interest Rate Range of 1.0% to 6.25%</b>	<b>Six-Month Yen LIBOR +3.75%</b>	<b>Six-Month GBP LIBOR 2.0%</b>	<b>Total</b>
(Dollars in thousands)								
2004	\$ 20,445	\$	\$ 230,790	\$ 12,006 (1)	\$ 12,663	\$ 373	\$ 5,145	\$ 281,422
2005	367			10,000				10,367
2006	17			10,000				10,017
2007	17			10,000				10,017
2008	17	41,753		257,500 (2)				299,270
Thereafter (3)	461,749							461,749
<b>Total</b>	<b>\$ 482,612</b>	<b>\$ 41,753</b>	<b>\$ 230,790</b>	<b>\$ 299,506</b>	<b>\$ 12,663</b>	<b>\$ 373</b>	<b>\$ 5,145</b>	<b>\$ 1,072,842</b>
<b>Weighted average interest rate</b>	<b>10.8%</b>	<b>3.9%</b>	<b>2.1%</b>	<b>4.4%</b>	<b>5.5%</b>	<b>3.8%</b>	<b>1.5%</b>	<b>6.8%</b>

- (1) Includes \$10.0 million relating to our senior secured credit facilities and \$2.0 million related to our Westmark senior notes (see note 12 to our audited consolidated financial statements included elsewhere in this prospectus).
- (2) Consists of amounts due under our senior secured credit facilities. These amounts will be refinanced in connection with the completion of the offering. The expected interest rates applying to such amounts after such refinancing are not reflected in this table. In addition, we expect to use a portion of the proceeds we receive from the offering to prepay \$16.9 million in principal amount of these amounts.
- (3) Primarily includes our 11¼% senior subordinated notes, 9¾% senior notes and 16% senior notes. In May and June 2004, we purchased \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. In addition, we expect to use a portion of the proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes and the remaining \$38.3 million in aggregate principal amount of our 16% senior notes.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 35 basis points, approximately 10% of the weighted average interest rates of our outstanding variable rate debt at December 31, 2003, the net impact would be a decrease of \$2.1 million on annual pre-tax income and cash provided by operating activities for the year ended December 31, 2003.

Based on dealers' quotes at December 31, 2003, the estimated fair values of our 9¾% senior notes and 11¼% senior subordinated notes were \$222.0 million and \$256.5 million, respectively. There was no trading.

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activity for our 16% senior notes due in 2011. The carrying value of our 16% senior notes as of December 31, 2003 totaled \$35.5 million. Estimated fair values for the term loan under our senior secured credit facilities and our remaining long-term debt are not presented because we believe that they are not materially different from book value, primarily because the majority of our remaining debt is based on variable rates that approximate terms that we believe could be obtained at December 31, 2003.

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

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**BUSINESS**

**Overview**

We are the largest global commercial real estate services firm, based on 2003 revenue, offering a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2003, we operated in 48 countries with over 13,500 employees in 220 offices providing commercial real estate services under the CB Richard Ellis brand name. Our business is focused on several service competencies, including strategic advice and execution assistance for property leasing and sales, forecasting, valuations, origination and servicing of commercial mortgage loans, facilities and project management and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees. For the year ended December 31, 2003, approximately 87.3% of our revenue related to engagements on a per project or transaction basis and approximately 12.7% of our revenue related to ongoing management fee engagements.

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

**Our History**

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

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

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

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

In July 2003, our global position was further solidified as CB Richard Ellis Services and Insignia Financial Group, Inc. were brought together to form a premier, worldwide, full-service real estate company. As a result of the Insignia acquisition, we now operate globally under the CB Richard Ellis brand name, which we believe is

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a well-recognized brand in virtually all of the world's key business centers. Lastly, in order to enhance our financing flexibility and to provide liquidity for some of our stockholders, in February 2004 we filed a registration statement, which included this prospectus, with the Securities and Exchange Commission, or SEC, for an initial public offering of our common stock.

### **Our Corporate Structure**

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

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

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

### **Industry Overview**

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

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



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

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#### *Outsourcing*

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

*Transaction management* oversight of purchase and sale of properties, execution of lease transactions, renewal of leases, expansions and relocation of offices and disposition of surplus space;

*Facilities management* oversight of all the operations associated with the functioning of occupied real estate, whether owned and leased, including engineering services, janitorial services, security services, landscaping and capital improvements and directing and monitoring of various subcontractors;

*Project management* oversight of the design and construction of interior space (as distinct from building design and construction), including assembling and coordinating contracting teams, and creating and managing budgets;

*Lease administration* analysis of all real estate leases of a client to ensure that it is in compliance with all terms and maintenance of reports on all lease data, including critical dates such as renewal options, expansion options and termination options, performance of required services and proper charging or payment for costs;

*Property Management* oversight of the daily operation of a single property or portfolio of properties, including tenant service/relations and bidding, awarding and administering subcontracts for maintenance, landscaping, security, parking, capital and tenant improvements to implement the owner's specific property value enhancement objectives through maximization of cash flow; and

*Property Accounting* performance of all of the accounting and financial reporting associated with a property or portfolio, including operating budget and expenses, rent collection and other accounts receivable, accounts payable, capital and tenant improvements and tenant lease administration.

According to an Ernst & Young study of major corporations published in the Fall of 2002, 57% of the subject corporations retained third-party service providers for transaction management services, 46% outsourced their lease administration functions and 37% outsourced their facilities management functions. We believe this represents an increase from historical outsourcing of these functions, and we expect this outsourcing trend to continue.

#### *Consolidation*

Despite recent consolidation, the commercial real estate services industry remains highly fragmented. Other than the limited number of national and international real estate services firms with whom we compete in a number of service competencies, most firms within the industry are local or regional firms that are substantially smaller than us on an overall basis, although in some cases have a larger local presence in certain competencies. We believe that major property owners and corporate users are motivated to consolidate their service provider relationships on a regional, national and global basis to obtain more consistent execution across markets, to achieve economies of scale and enhanced purchasing

power and to benefit from streamlined management oversight and the efficiency of single point of contact service delivery. As a result, we believe large owners and occupiers are awarding a disproportionate share of this business to the larger real estate services providers, particularly those that provide a full suite of services across geographical boundaries.

*Institutional Ownership of Commercial Real Estate*

Institutional owners, such as real estate investment trusts, or REITs, pension funds, foreign institutions and other financial entities, increasingly are acquiring more real estate assets and financing them in the capital markets. Total U.S. real estate assets held by institutional owners increased to \$423 billion in 2003 from \$223 billion in 1994. REITs were the main drivers of this growth, with a portfolio increase of more than 400% over

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this time period. Pension fund assets also grew by 48% and foreign institutions augmented their U.S. real estate investments by 77%. We believe it is likely that these owners will outsource management of their portfolios and consolidate their use of commercial real estate services vendors.

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

We have organized our business into, and report our results of operations through, three geographically organized segments: (1) the Americas, (2) Europe, Middle East and Africa, or EMEA, and (3) Asia Pacific. Within our Americas segment, we organize our services into the following business areas in order to maximize synergies and cross-selling opportunities among our clients: (a) advisory services, (b) outsourcing services and (c) investment management services.

Information regarding revenue and operating income or loss, attributable to each of our segments, is included in *Segment Operations* within the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section of this prospectus and within note 21 to our audited consolidated financial statements included elsewhere in this prospectus. Information concerning the identifiable assets of each of our business segments is set forth in note 21 to our audited consolidated financial statements included elsewhere in this prospectus.

#### *The Americas*

The Americas is our largest segment of operations and provides a comprehensive range of services throughout the United States and in the largest metropolitan regions in Canada, Mexico and other selected parts of Latin America. Our Americas segment accounted for 73.5% of our 2003 revenue, 76.6% of our 2002 revenue and 79.3% of our 2001 revenue.

#### *Advisory Services*

Corporations, institutions and other users of real estate services have been increasingly consolidating their relationships with fewer service providers that have depth of resources, full array of services and broad geographic reach. We believe our advisory services businesses have been at the vanguard of this trend, offering occupier/tenant and investor/owner services that meet the full spectrum of marketplace needs, including (1) real estate services, (2) mortgage loan origination and servicing and (3) valuation. Our advisory services business line accounted for 59.7% of our 2003 revenue, 60.5% of our 2002 revenue and 61.3% of our 2001 revenue.

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

***Real Estate Services.*** We provide strategic advice and execution assistance to owners, investors and occupiers of real estate in connection with leasing, disposition and acquisition of property. These businesses are built upon strong client relationships that frequently lead to recurring revenue opportunities over many years. Our real estate services professionals are particularly adept at aligning real estate strategies with client business objectives, serving as an advisor as well as transaction executor. During 2003, on a

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pro forma basis, we advised on nearly 23,000 lease transactions involving aggregate rents of approximately \$27.3 billion and more than 4,700 real estate sales transactions with an aggregate value of approximately \$27.6 billion. We believe we are a market leader for the provision of sales and leasing real estate services in many of the top U.S. metropolitan statistical areas (as defined by the U.S. Census Bureau), including New York, Philadelphia, Washington, D.C., Los Angeles, Atlanta, Chicago, Boston and Dallas.

Our advice and execution assistance professionals are compensated primarily through commission-based programs, which are payable upon completion of the assignment. Therefore, as compensation is one of our largest expenses, this flexible cost structure permits us to mitigate the negative effect on our operating margins during difficult market conditions. Due to the low barriers to entry and significant competition for quality employees, we strive to retain top professionals through an attractive compensation program tied to productivity.

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We further strengthen our relationships with our real estate services clients by offering proprietary research to clients through our Torto Wheaton Research unit, a leading provider of commercial real estate market information, forecasting and consulting services. Torto Wheaton Research provides data and analysis to its clients in various formats, including TWR Outlook reports for office, industrial, hotel, retail and multi-housing sectors covering 56 U.S. metropolitan areas and TWR Select office and industrial database coverage of over 210,000 commercial properties.

***Mortgage Loan Origination and Servicing.*** Our wholly owned subsidiary, L.J. Melody & Company, originates and services commercial mortgage loans primarily through relationships established with investment banking firms, national banks, credit companies, insurance companies, pension funds and government agencies. During 2003, L.J. Melody originated \$11.0 billion in mortgage loans and, through a joint venture with GE Capital Real Estate, serviced approximately \$61.0 billion in mortgage loans, \$23.2 billion of which relates to servicing rights of L.J. Melody. Approximately \$1.4 billion in loans were originated for federal government sponsored entities using a revolving credit line dedicated exclusively for this purpose. These loan originations generally occur without principal risk because L.J. Melody obtains a legally binding purchase commitment from the government sponsored entity before it actually originates the loan.

***Valuation.*** We provide valuation services that include market value appraisals, litigation support, discounted cash flow analyses and feasibility and fairness opinions. Our valuation business has developed proprietary technology for preparing and delivering valuation reports to its clients, which we believe provides it with a competitive advantage over its rivals. We believe that our valuation business is one of the largest in our industry. During 2003, on a pro forma basis, we completed over 11,500 valuation, appraisal and advisory assignments.

*Outsourcing Services*

Outsourcing is a long-term trend in commercial real estate, with corporations, institutions and others seeking to achieve improved efficiency, better execution and lower costs by relying on the expertise of third-party real estate specialists. Our outsourcing services business includes two business lines that seek to capitalize on this trend: (1) asset services and (2) corporate services. Although our management agreements with our outsourcing clients generally may be terminated on relatively short notice ranging between 30 days to a year, we have developed long-term relationships with many of these clients and we continue to work closely with them to implement their specific goals and objectives and to preserve and expand upon these relationships. As of December 31, 2003, we managed approximately 422.8 million square feet of commercial space for property owners and occupiers, which we believe represents one of the largest portfolios in the Americas. Our outsourcing services business line accounted for 11.2% of our 2003 revenue, 13.1% of our 2002 revenue and 14.7% of our 2001 revenue.

***Asset Services.*** We provide property management, construction management, marketing, leasing, accounting and financial services on a contractual basis for income-producing office, industrial and retail properties owned by local, regional and institutional investors. We believe our contractual relationships with these clients put us in an advantageous position to provide other services for them, including refinancing, disposition and appraisal.

***Corporate Services.*** We provide a comprehensive set of portfolio management, transaction management, project management, strategic consulting, facilities management and other corporate real estate services to leading global companies and public sector institutions with large, geographically-diverse real estate portfolios. Corporate facilities under management in the Americas region include headquarters buildings, regional offices, administrative offices and manufacturing and distribution facilities. Corporate services clients are typically companies or public sector institutions with large, distributed real estate portfolios. We enter into long-term, contractual relationships with these organizations with the goal of ensuring that our clients' real estate strategies support their overall business strategies.

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#### *Investment Management Services*

Our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., provides investment management services to clients that include pension plans, investment funds, insurance companies and other organizations seeking to generate returns and diversification through investment in real estate and sponsors funds and investment programs that span the risk/return spectrum. In higher yield strategies, CBRE Investors co-invests with its clients/partners. Our investment management services business line accounted for 2.6% of our 2003 revenue, 3.0% of our 2002 revenue and 3.3% of our 2001 revenue.

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

CBRE Investors closed over \$1.2 billion of new acquisitions in the Americas in each of 2002 and 2003, and it has increased its assets under management in the Americas from \$3.5 billion in 1998 to \$5.7 billion in 2003, representing a 10.2% compound annual growth rate.

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

Our EMEA segment has offices in 28 countries, with its largest operations located in the United Kingdom, France, Spain, The Netherlands and Germany. Operations within the EMEA countries generally include brokerage, investment properties, corporate services, valuation/appraisal services, asset management services, facilities management and other services similar to our Americas segment. The EMEA segment accounted for 19.2% of our 2003 revenue, 15.6% of our 2002 revenue and 13.8% of our 2001 revenue.

We are one of the leading commercial real estate services companies in the United Kingdom. We hold the leading market position in London in terms of 2003 leased square footage and provide a broad range of commercial property real estate services to investment, commercial and corporate clients located in London. We also have eight regional offices in Birmingham, Bristol, Jersey, Leeds, Liverpool, Manchester, Edinburgh and Glasgow. In France, we believe we are a market leader in Paris and we provide a complete range of services to the commercial property sector, as well as some services to the residential property market. In Spain, we provide expansive coverage operating through our offices in Madrid, Barcelona, Valencia, Malaga, Marbella and Palma de Mallorca. Our business in The Netherlands is based in Amsterdam, while our German operations are located in Frankfurt, Munich, Berlin and Hamburg. Our operations in these countries generally provide a full range of services to the commercial property sector, along with some residential property services.

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

affiliated offices.

*Asia Pacific*

Our Asia Pacific segment has offices in 11 countries. We believe that we are one of only a few companies that can provide a full range of real estate services to large corporations throughout the region, including the



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similar broad range of services provided by our Americas and EMEA segments. Our principal operations in Asia are located in China (including Hong Kong), Singapore, South Korea and Japan. In addition, we have agreements with affiliated offices in India, the Philippines, Thailand and other countries within the region that include licensing, royalty and cross-referral arrangements on terms similar to those with our affiliated offices in our EMEA segment, as described above. The Pacific region includes Australia and New Zealand, with principal offices located in Brisbane, Melbourne, Sydney, Perth, Auckland and Wellington. The Asia Pacific segment accounted for 7.3% of our 2003 revenue, 7.8% of our 2002 revenue and 6.9% of our 2001 revenue.

### **Our Competitive Position**

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

**Global Brand and Market Leading Positions.** For nearly a century, we and our predecessors have built the CB Richard Ellis brand into the largest commercial real estate services provider in the world, based on 2003 revenue, and one of only two commercial real estate services companies with a global brand. As a result of our global brand recognition and geographic reach, large corporations, institutional owners and users of real estate recognize us as a leading provider of world-class, comprehensive real estate services. Operating under the global CB Richard Ellis brand name, we are a leader in many of the local markets in which we operate, including New York, Los Angeles, Chicago, London and Paris.

**Full Service Capabilities.** We provide a full range of commercial real estate services to meet the needs of our clients, and we believe this suite of services represents a broader range globally than those of many of our competitors. When combined with our extensive global reach and localized knowledge, this full range of real estate services enables us to provide world-class service to our multi-regional and multi-national clients, as well as to maximize our revenue per client.

**Strong Client Relationships and Client-tailored Service.** We have forged long-term relationships with many of our clients. Our clients include more than 60% of the *Fortune 100*, with nearly half of these clients purchasing more than one service from us. In order to better satisfy the needs of our largest clients and to capture cross-selling opportunities, we have organized fully integrated client coverage teams comprised of senior management, a global relationship manager and regional and product specialists. We believe that this client-tailored approach contributed significantly to our 38.6% increase in revenues from the 50 largest clients of our U.S. investment sales group within our real estate services line of business during the period from 1999 to 2003.

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

**Diversified Client Base.** Our global operations, multiple service lines and extensive client relationships provide us with a diversified revenue base. For 2003, on a pro forma basis, we estimate that corporations accounted for approximately 25% of our global revenues, insurance companies and banks accounted for approximately 23% of our revenue, pension funds and their advisors accounted for approximately 14% of our revenue, individuals and partnerships accounted for approximately 11% of our revenue, REITs accounted for approximately 10% of our revenue and other types of clients accounted for the remainder of our revenues.

**Recurring Revenue Streams.** Our years of strong local market presence have allowed us to develop significant repeat client relationships, which along with the turnover of leases and properties for which we have previously acted as transaction manager we estimate accounted for approximately 65% of our 2003 revenue. This includes our contractual, annual fee-for-services

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businesses, which generally involve facilities management, property management, mortgage loan servicing provided by L.J. Melody & Company and asset management provided by CBRE Investors. Our contractual, fee-for-service business represented 12.7% of our 2003 revenue.

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***Variable Cost Structure.*** Compensation is one of our largest expenses, and our sales and leasing professionals are generally paid on a commission and bonus basis, which correlates with our revenue performance. This flexible cost structure mitigates the negative effect on our operating margins during difficult market conditions. However, our cost structure also includes significant other operating expenses that may not correlate to our revenue performance, including office lease and information technology maintenance expenses along with insurance premiums.

***Low Capital Requirements.*** Our business model is structured to provide value-added services with low capital intensity. During 2003, our net capital expenditures were 1.7% of our revenue.

***Strong Cash Flow Generation.*** Our strong brand name, full-service capabilities, and global presence enable us to generate significant revenues which, when combined with our flexible cost structure and low capital requirements, have allowed us historically to generate significant cash flow in a variety of economic conditions.

***Strong Management Team and Workforce.*** Our most important asset is our people. We have recruited a talented and motivated workforce of over 13,500 employees worldwide, who are supported by a strong and deep senior management team consisting of a number of highly-respected executives, most of whom have over 20 years of broad experience in the real estate industry. In addition, we use equity compensation to align the interests of our senior management team with the interests of our stockholders. Our executive officers beneficially owned approximately 4.2% of our common stock as of May 31, 2004, and our employees, as a group, beneficially owned 11.4% of our common stock on the same date. After giving effect to the offering, our executive officers will beneficially own approximately 3.7% and our employees as a group will beneficially own approximately 10.1% of our outstanding common stock.

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

***Significant Leverage.*** We are highly leveraged and have significant debt service obligations. For the year ended December 31, 2003, on a pro forma basis, our interest expense was \$63.5 million. In addition, the instruments governing our indebtedness impose significant operating and financial restrictions on the conduct of our business.

***Geographic Concentration.*** During 2003, approximately 23.8% of our revenue was generated from transactions originating in California and approximately 6.9% of our revenue was generated from transactions originating in the greater New York metropolitan area. In addition, a significant portion of our European operations is concentrated in London and Paris. As a result, future adverse economic effects in these regions may affect us more than our competitors.

***Exposure to Risks of International Operations.*** We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2003, we generated approximately 30.2% of our revenue from operations outside the United States. Because a significant portion of our revenues are derived from operations outside the United States, we are exposed to adverse changes in exchange rates and social, political and economic risks of doing business in foreign countries.

***Smaller Presence in Some Markets than our Local Competitors.*** Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across service categories and geographic areas. Depending on the service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis.



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**Our Growth Strategy**

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

***Increase Revenue from Large Clients.*** We plan to capitalize on our client management strategy for our large clients, which is designed to provide them with a full range of services globally while maximizing our revenue per client. We deliver these services through relationship management teams that are charged with thoroughly understanding our customers' business and real estate strategies and matching our services to the customers' requirements. The global relationship manager is a highly seasoned professional who is focused on maximizing revenue per client and compensated with a salary and a performance-based bonus and is supported by salaried professionals with specialized expertise, such as marketing, financial analysis and construction. The team leader also taps into our field-level transaction professionals, as necessary, for execution of client strategies. We believe this approach to client management will lead to stronger client relationships and enable us to maximize cross-selling opportunities and capture a larger share of our clients' commercial real estate services expenditures. For example:

we generated repeat business in 2003 from approximately 60% of our U.S. real estate sales and leasing clients;

more than 40% of our corporate services clients today purchase more than one service and, in many cases, more than two;

the square footage we manage for our 15 largest asset services clients has grown by 55% in three years; and

the 50 largest clients of the investment sales group within our real estate services line of business generated \$52.6 million in revenues in 2003 up 38.6% from \$37.9 million for these same 50 clients four years earlier.

***Capitalize on Cross-selling Opportunities.*** Because we believe cross-selling represents a large growth opportunity within the commercial real estate services industry, we are committed to emphasizing this opportunity across all of our clients, services and regions. We have dedicated substantial resources and implemented several management initiatives to better enable our workforce to capitalize on these opportunities among our various lines of business, including our CBRE University outside Chicago that provides intensive training for sales and management professionals, a customer relationship management database and sales management principles and incentives designed to improve individual productivity. We believe the combination of these initiatives will enable us to further penetrate local markets and better capitalize on our worldwide platform.

***Continue to Grow our Investment Management Business.*** Our growing investment management business provides us with an attractive revenue source through fees on assets under management and gains on the sales of assets. We also expect to achieve strong growth in this business by continuing to harness the vast resources of the entire CB Richard Ellis organization for the benefit of our investment management clients. CBRE Investors' independent structure creates an alignment of interests with its investors, while permitting its portfolio companies to use the broad range of services provided by our other business lines. As a result, we historically have received significant revenue from the provision of services on an arm's length basis to these portfolio companies, and we believe this will continue in the future.



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***Focus on Best Practices to Improve Operating Efficiency.*** In 2001, we launched a best practices initiative, branded People, Platform & Performance, and we believe the process and operational improvements associated with this initiative contributed to operating cost reductions. We believe our focus on best practices has enabled us to generate industry-leading operating margins. We remain keenly focused on this strategic initiative and continue to strive for efficiency improvements and cost savings in order to maximize our operating margins and cash flow.

### **Competition**

We compete across a variety of business disciplines within the commercial real estate services industry, including investment management, tenant representation, corporate services, construction and development management, property management, agency leasing, valuation and mortgage banking. Each of the business disciplines in which we compete is highly competitive on an international, national, regional and local level. Although we are the largest commercial real estate services firm in the world in terms of 2003 revenue, our relative competitive position varies significantly across product and service categories and geographic areas. Depending on the product or service, we face competition from other commercial real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Many of our competitors are local or regional firms. Although substantially smaller than we are, some of these competitors are larger on a local or regional basis. We are also subject to competition from other large national and multi-national firms that have similar service competencies to ours, including Cushman & Wakefield, Grubb & Ellis, Jones Lang LaSalle and Trammell Crow.

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

### **Seasonality**

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

### **Employees**

At December 31, 2003, we had approximately 13,500 employees worldwide. At December 31, 2003, approximately 245 of our employees were subject to collective bargaining agreements, the substantial majority of whom are employees in our asset services business in the New York/New Jersey area. We believe that our relations with our employees are satisfactory.

### **Intellectual Property**

We hold various trademarks and trade names worldwide, which include the CB Richard Ellis name. Although we believe our intellectual property plays a role in maintaining our competitive position in a number of the markets that we serve, we do not believe we would be materially adversely affected by expiration or termination of our trademarks or trade names or the loss of any of our other intellectual property rights other than the CB Richard Ellis name and the L.J. Melody name. With respect to the CB Richard Ellis and L.J. Melody names, we have processed and continuously maintain trademark registrations for these trade names in the United



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States and, solely with respect to the CB Richard Ellis name, in most foreign jurisdictions where we conduct significant business. We obtained our most recent U.S. trademark registrations for the CB Richard Ellis name and related trade names in 2001, and these registrations would expire in 2007 if we failed to renew them. We obtained our most recent U.S. trademark registration for the L.J. Melody name in 1997, and this registration would expire in 2007 if we failed to renew it.

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

**Environmental Matters**

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

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

**Facilities**

We occupied the following offices as of December 31, 2003:

<u>Location</u>	Sales Offices	Corporate Offices	<u>Total</u>
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The Americas	139	2	141
Europe, Middle East and Africa	52	1	53
Asia Pacific	25	1	26
	<hr/>	<hr/>	<hr/>
Total	216	4	220
	<hr/>	<hr/>	<hr/>

In general, these leased offices are fully utilized. The most significant terms of the leasing arrangements for our offices are the term of the lease and the rent. Our leases have terms varying in duration. The rent payable

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under our office leases varies significantly from location to location as a result of differences in prevailing commercial real estate rates in different geographic locations. Our management believes that no single office lease is material to our business, results of operations or financial condition. In addition, we believe there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our profits in those markets when we enter into new leases.

We do not own any offices, which is consistent with our strategy to lease instead of own.

**Legal Proceedings**

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

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The following table sets forth information about our executive officers and directors as of May 31, 2004:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Ray Wirta	60	Chief Executive Officer and Director
Brett White	44	President and Director
Kenneth J. Kay	49	Chief Financial Officer
Alan C. Froggatt	54	President, EMEA
Robert Blain	48	President, Asia Pacific
Richard C. Blum	68	Chairman of the Board of Directors
Jeffrey A. Cozad	39	Director
Patrice Marie Daniels	43	Director
Bradford M. Freeman	62	Director
Michael Kantor	64	Director
Frederic V. Malek	67	Director
Jeffrey S. Pion	42	Director
Gary L. Wilson	64	Director

*Ray Wirta.* Mr. Wirta has been Chief Executive Officer of CB Richard Ellis Group since July 2001 and a director of CB Richard Ellis Group since September 2001. He has been Chief Executive Officer of CB Richard Ellis Services since May 1999. He served as its Chief Operating Officer from May 1998 to May 1999. Mr. Wirta holds a B.A. from California State University, Long Beach and an M.B.A. in International Management from Golden Gate University.

*Brett White.* Mr. White has been President and a director of CB Richard Ellis Group since September 2001. He was Chairman of the Americas of CB Richard Ellis Services from May 1999 to September 2001 and was its President of Brokerage Services from August 1997 to May 1999. Previously, he was its Executive Vice President from March 1994 to July 1997 and Managing Officer of its Newport Beach, California office from May 1993 to March 1994. Mr. White is a member of the board of directors of Mossimo, Inc. Mr. White received his B.A. from the University of California, Santa Barbara.

*Kenneth J. Kay.* Mr. Kay has been Chief Financial Officer of CB Richard Ellis Group since July 2002. He previously served as Vice President and Chief Financial Officer of Dole Food Company, Inc. from December 1999 to June 2002. Mr. Kay served as Executive Vice President and Chief Financial Officer for the consumer products group of Universal Studios, Inc. from December 1997 to December 1999. Mr. Kay is a certified public accountant in the State of California and holds a B.A. and an M.B.A. from the University of Southern California.

*Alan C. Froggatt.* Mr. Froggatt has been President of CB Richard Ellis Ltd. EMEA since July 2003, when CB Richard Ellis Group acquired Insignia. He previously served as Chief Executive Officer of Insignia's European Operations and as Chief Executive of Richard Ellis Group Limited from the date it was acquired by Insignia in February 1998. Mr. Froggatt holds a B.S. from the College of Estate Management,

University of Reading.

*Robert Blain.* Mr. Blain has been President of CB Richard Ellis Asia Pacific since February 2002. Prior to such time, he was employed by Colliers International Property Consultants, Inc., and served as a Regional Investment Director from 1995 to 1998, its Australia Director from 1999 to 2000 and as its Chief Executive South Wales from 2000 to February 2002. Mr. Blain holds a diploma in Land Economy from the Real Estate Institute of New South Wales.

*Richard C. Blum.* Mr. Blum has been Chairman of the Board of Directors of CB Richard Ellis Group since September 2001 and a director of CB Richard Ellis Group since July 2001. He is the Chairman and President of

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Richard C. Blum & Associates, Inc., the general partner of Blum Capital Partners, L.P., a long-term strategic equity investment management firm that acts as general partner for various investment partnerships and provides investment advisory services, which he founded in 1975. Mr. Blum is a member of the boards of directors of Northwest Airlines Corporation and Glenborough Realty Trust Incorporated and is Vice Chairman of the Board of URS Corporation. Mr. Blum is currently a director of Playtex Products, Inc., but will not seek re-election at the company's 2004 annual meeting. Mr. Blum also serves as co-chairman of Newbridge Capital, LLC, an investment management firm that invests in Asia and Latin America. Mr. Blum holds a B.A. and an M.B.A. from the University of California, Berkeley.

*Jeffrey A. Cozad.* Mr. Cozad has been a director of CB Richard Ellis Group since September 2001. Mr. Cozad has been a partner of Blum Capital Partners, L.P. since 2000. Prior to joining Blum Capital Partners, Mr. Cozad was a managing director of Security Capital Group Incorporated, a global real estate research, investment and operating management company from 1991 to 2000. Mr. Cozad holds a B.A. from DePauw University and an M.B.A. from the University of Chicago Graduate School of Business.

*Patrice Marie Daniels.* Ms. Daniels has been a director of CB Richard Ellis Group since February 2004. Ms. Daniels is a founding partner of Onyx Capital Ventures, L.P., a private equity investment firm, which was founded in October 2001. She previously served as Managing Director, Corporate and Leveraged Finance for CIBC World Markets, an investment banking firm, from March 1997 to October 2001. Ms. Daniels holds a B.S. from the University of California, Berkeley and an M.B.A. from the University of Chicago Graduate School of Business.

*Bradford M. Freeman.* Mr. Freeman has been a director of CB Richard Ellis Group since July 2001. Mr. Freeman is a founding partner of Freeman Spogli & Co. Incorporated, a private investment company founded in 1983. Mr. Freeman is also a member of the board of directors of Edison International. Mr. Freeman holds a B.A. from Stanford University and an M.B.A. from Harvard Business School.

*Michael Kantor.* Mr. Kantor has been a director of CB Richard Ellis Group since February 2004. Mr. Kantor has been a partner with the law firm of Mayer, Brown, Rowe & Maw LLP since March 1997. From 1993 to 1996, he served as the U.S. Trade Representative and from 1996 to 1997 as U.S. Secretary of Commerce. Mr. Kantor holds a B.A. from Vanderbilt University and a J.D. from Georgetown University.

*Frederic V. Malek.* Mr. Malek has been a director of CB Richard Ellis Group since September 2001. He has served as Chairman of Thayer Capital Partners, a merchant banking firm he founded, since 1993. He also serves on the boards of directors of Automatic Data Processing Corp., Federal National Mortgage Association, FPL Group, Inc., Manor Care, Inc. and Northwest Airlines Corporation. Mr. Malek recently retired as director of American Management Systems, Inc., effective March 31, 2004. Mr. Malek holds a B.S. degree from the United States Military Academy at West Point and an M.B.A. from Harvard Business School.

*Jeffrey S. Pion.* Mr. Pion has been a director of CB Richard Ellis Group since October 2003. Mr. Pion has been an Executive Vice President of CB Richard Ellis Group since January 2003. For the last 18 years, Mr. Pion has been a broker at our subsidiary CB Richard Ellis, Inc., focusing on the sale and leasing of office and commercial properties. Prior to joining CB Richard Ellis, Inc., Mr. Pion worked at Central Real Estate Corp., a real estate development and investment company based in Los Angeles. Mr. Pion holds a B.A. degree from the University of California, Santa Barbara.

*Gary L. Wilson.* Mr. Wilson has been a director of CB Richard Ellis Group since September 2001. He previously served as a director of our company from 1989 to July 2001. Since April 1997, Mr. Wilson has been Chairman of Northwest Airlines Corporation, for which he served as Co-Chairman from January 1991 to April 1997. Mr. Wilson also serves on the boards of directors of The Walt Disney Company, On Command

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Corporation, Veritas Holdings GmbH and Yahoo! Inc. Mr. Wilson holds a B.A. from Duke University and an M.B.A. from the Wharton Graduate School of Business and Commerce at the University of Pennsylvania.

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Each executive officer serves at the discretion of our board of directors and holds office until his successor is elected and qualified or until his earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

**Board Structure**

Our board of directors currently consists of ten directors. Our board of directors has determined that each of Ms. Daniels and Messrs. Blum, Cozad, Freeman, Kantor, Malek and Wilson is independent, as defined under and required by the federal securities laws and the rules of the New York Stock Exchange.

All of our directors stand for election at each annual meeting of our stockholders.

As described in greater detail under the heading titled *Related Party Transactions Securityholders Agreement*, pursuant to a securityholders agreement, after the completion of the offering our stockholders affiliated with Blum Capital Partners, L.P. are entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Accordingly, these affiliates of Blum Capital Partners have nominated Messrs. Blum and Cozad to our board of directors. In addition to Messrs. Blum and Cozad, assuming our board of directors continues to consist of ten directors in the future, these affiliates will be entitled to nominate up to three additional directors in future board elections based upon their percentage ownership of our common stock immediately after completion of the offering. Also pursuant to the securityholders agreement, after the completion of the offering our stockholders affiliated with Freeman Spogli & Co. Incorporated are entitled to nominate one of our directors, and they have nominated Mr. Freeman.

**Committees of the Board**

The standing committees of our board of directors currently consist of an audit committee, a corporate governance and nominating committee, a compensation committee and an executive committee.

***Audit Committee***

The principal duties of our audit committee are as follows:

to retain, compensate, oversee and terminate any registered public accounting firm in connection with the preparation or issuance of an audit report, and to approve all audit services and any permissible non-audit services provided by the independent auditors;

to receive the direct reports from any registered public accounting firm engaged to prepare or issue an audit report;



to review and discuss annual audited and quarterly unaudited financial statements with management and the independent auditors;

to review with the independent auditor any audit problems and management's response;

to discuss earnings releases, financial information and earnings guidance provided to analysts and rating agencies;

to periodically meet separately with management, internal auditors and the independent auditors;

to establish procedures to receive, retain and treat complaints regarding accounting, internal accounting controls or auditing matters;

to obtain and review, at least annually, an independent auditors' report describing the independent auditors' internal quality-control procedures and any material issues raised by the most recent internal quality-control review of the independent auditors or any inquiry by governmental authorities;

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to set hiring policies for employees or former employees of the independent auditors;

to retain independent counselor and other outside advisors, including experts in the area of accounting, as it determines necessary to carry out its duties; and

to report regularly to our full board of directors with respect to any issues raised by the foregoing.

Our audit committee is composed of Ms. Daniels and Messrs. Malek and Wilson, and our board of directors has determined that each of the members of our audit committee is independent, as defined under and required by the federal securities laws and the rules of the New York Stock Exchange, or NYSE, including Rule 10A-3(b)(i) under the Securities Exchange Act of 1934.

Our board of directors has determined that Ms. Daniels qualifies as an audit committee financial expert, as this term has been defined by the SEC in Item 401(h)(2) of Regulation S-K. Our board of directors determined that Ms. Daniels acquired the required attributes for such designation as a result of the following relevant experience, which forms of experience are not listed in any order of importance and were not assigned any relative weights or values by our board of directors in making such determination:

Ms. Daniels received a B.S. degree in Business Administration at the University of California, Berkeley and an M.B.A. degree in Finance at the University of Chicago Graduate School of Business.

Ms. Daniels served in several capacities, including as a Managing Director, with Bankers Trust from July 1987 to March 1997, which included arranging private and public senior and subordinated debt financing and equity capital for leveraged buyout transactions and for restructuring or acquisitions for non-investment grade companies.

Ms. Daniels served as a Managing Director with CIBC World Markets from March 1997 to October 2001, which included providing investment and commercial banking products to non-investment grade companies and leveraged buyout firms.

Ms. Daniels is a founding partner of Onyx Capital Ventures, L.P., a private equity investment firm, which was founded in October 2001.

Ms. Daniels served on the audit committee of the board of directors of World Color Press, Inc., a diversified commercial printing company that was publicly traded on the NYSE until it was acquired by Quebecor Printing Inc. in 1999, from January 1998 to October 1999.

Our board of directors has adopted a written charter for the audit committee which will be available on our website prior to completion of the offering.

***Corporate Governance and Nominating Committee***

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The principal duties of the corporate governance and nominating committee are as follows:

subject to the provisions of the securityholders' agreement described in further detail under the heading titled "Related Party Transactions Securityholders' Agreement," to recommend to our board of directors proposed nominees for election to the board of directors by the stockholders at annual meetings, including an annual review as to the renominations of incumbents and proposed nominees for election by the board of directors to fill vacancies that occur between stockholder meetings; and

to make recommendations to the board of directors regarding corporate governance matters and practices.

Our corporate governance and nominating committee is composed of Messrs. Blum, Malek and Kantor, and our board of directors has determined that each of the members of our corporate governance and nominating committee is independent, as defined under and required by the federal securities laws and the rules of the NYSE.

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Our board of directors has adopted a written charter for the corporate governance and nominating committee which will be available on our website prior to completion of the offering.

***Compensation Committee***

The principal duties of the compensation committee are as follows:

to review key employee compensation policies, plans and programs;

to review and approve the compensation of our chief executive officer and the other executive officers of the company and its subsidiaries;

to review and approve any employment contracts or similar arrangement between the company and any executive officer of the company;

to review and consult with our chief executive officer concerning selection of officers, management succession planning, performance of individual executives and related matters; and

to administer our stock plans, incentive compensation plans and any such plans that the board may from time to time adopt and to exercise all the powers, duties and responsibilities of the board of directors with respect to such plans.

Our compensation committee currently is composed of Messrs. Malek, Freeman and Cozad, and our board of directors has determined that each of the members of our compensation committee is independent, as defined under and required by the federal securities laws and the rules of the NYSE.

Our board of directors has adopted a written charter for the compensation committee which will be available on our website prior to completion of the offering.

***Executive Committee***

Our board of directors has delegated to the executive committee the authority to act for the board on most matters during intervals between board meetings, except with respect to issuances of stock, declarations of dividends and other matters that, under Delaware law, may not be delegated to a committee of the board of directors. The principal duties of the executive committee are as follows:

to develop and implement our Company's policies, plans and strategies; and

to approve, modify or reject certain acquisitions or investments.

The executive committee currently is composed of Messrs. Wirta, White and Blum.

#### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended December 31, 2003, the members of our compensation committee were Frederic V. Malek and Bradford Freeman. Neither Mr. Malek nor Mr. Freeman has ever been an officer or employee of our company or any of our subsidiaries. During 2003, none of our executive officers served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on our compensation committee or board of directors. Additional information concerning transactions between us and the members of our compensation committee or entities affiliated with such members is described under the heading titled "Related Party Transactions."

#### **Codes of Conduct and Ethics and Corporate Governance Guidelines**

Our board of directors has adopted (1) a code of business conduct and ethics applicable to our directors, officers and employees, (2) a code of ethics applicable to our chief executive officer, chief financial officer and

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global controller and (3) corporate governance guidelines, each in accordance with applicable rules and regulations of the SEC and the NYSE. Prior to completion of the offering, each of these codes of ethics and conduct and the corporate governance guidelines will be available on our website.

**Compensation of Directors**

On November 5, 2003, we granted Gary Wilson options to acquire 27,714 shares of our Class A common stock for \$5.77 per share in connection with his agreement to serve on the audit committee of our board of directors. On February 9, 2004, we granted Michael Kantor options to acquire 13,857 shares of our Class A common stock for \$5.77 per share in connection with his agreement to serve on our board of directors. The options of Messrs. Wilson and Kantor were granted pursuant to our 2001 stock incentive plan, vest 20% per anniversary of their respective grant dates and expire on the earlier of the tenth anniversary of the grant date or the one-year anniversary after such director ceases to be a member of our board of directors.

In addition, we recently adopted a director compensation policy that provides for the following annual compensation for each of our non-employee directors:

a \$20,000 annual cash retainer;

a grant of a number of unrestricted shares of our common stock with a fair market value equal to \$10,000 on the date of grant;

a stock option grant for a number of shares equal to \$50,000 divided by the fair market value of our common stock on the date of grant; and

a restricted stock grant for a number of shares equal to \$25,000 divided by the fair market value of our common stock on the date of grant.

Pursuant to this policy, our directors also receive an additional payment of \$1,000 per meeting attended and \$1,000 per committee meeting attended that was not scheduled in conjunction with a meeting of our board of directors. The chairman of the audit committee receives an additional annual cash retainer of \$10,000, and the chairmen of all other committees receive additional annual cash retainers of \$5,000 each. The annual cash retainer, the additional payments per meeting attended and the additional annual cash retainers for committee chairmanships became effective under this policy as of March 11, 2004.

With respect to the equity compensation components of our director compensation policy, we anticipate making automatic grants of stock options and restricted stock, as described above, to our current outside directors pursuant to our 2004 stock incentive plan, the terms of which are described below. These grants will be pro-rated to cover only the period from the date the registration statement of which this prospectus is a part is declared effective by the SEC to the following May 15, the end date of the annual pro-ration cycle as determined by the 2004 stock incentive plan.

We also reimburse our non-employee directors for all out-of-pocket expenses incurred in the performance of their duties as directors. Our employee directors do not receive any fees for attendance at meetings or for their service on our board of directors.

**Table of Contents****Index to Financial Statements****Compensation of Executive Officers*****Summary Compensation Table***

The following table sets forth information concerning the compensation of our chief executive officer and our other executive officers for the three years ended December 31, 2003:

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation (5)
		Salary	Bonus (1)	Other Annual Compensation (2)(3)	Restricted Stock Awards (2)(4)	Securities Underlying Stock Options	
Ray Wirta Chief Executive Officer	2003	\$ 573,129	\$ 521,310	\$ 28,560		232,794	\$
	2002	518,511		27,359			
	2001	518,510		8,092		488,184	489,375
Brett White President	2003	506,156	355,481	15,284		232,794	
	2002	450,501		71,897			
	2001	415,883		62,552		392,929	971,000 (6)
Kenneth J. Kay (7) Current Senior Executive Vice President and Chief Financial Officer	2003	450,000	300,000			99,769	
	2002	207,692				171,824	300,000 (8)
James H. Leonetti (9) Former Senior Executive Vice President and Chief Financial Officer	2002	147,138					170,000 (10)
	2001	254,458				47,629	453,500 (11)
Alan C. Froggatt (12) President, EMEA	2003	337,351	536,190	20,777 (13)		83,141	566 (14)
Robert Blain (15) President, Asia Pacific	2003	302,308	344,506	157,692		69,284	
	2002	225,000	100,000	120,000			15,000 (16)

(1) Bonuses for each year are paid in the first quarter of the following year pursuant to our Annual Management Bonus Plan. For example, the bonus shown for 2003 represents the 2002 annual bonus that was paid in the first quarter of 2003.



- (2) Pursuant to the 1996 Equity Incentive Plan, or EIP, Mr. White purchased 25,000 shares of CB Richard Ellis Services common stock in 1998 at a purchase price of \$38.50 per share and 20,000 shares of CB Richard Ellis Services common stock in 2000 at a purchase price of \$12.875 per share. These purchases were paid for by the delivery of full-recourse promissory notes. A First Amendment to Mr. White's 1998 promissory note provided that the portion of the then outstanding principal in excess of the fair market value of the shares would be forgiven in the event that Mr. White was an employee of ours or of our subsidiaries on November 16, 2002 and the fair market value of our common stock was at least \$13.89 per share on November 16, 2002. As part of our acquisition of CB Richard Ellis Services in 2001, the 25,000 shares of CB Richard Ellis Services common stock purchased by Mr. White were exchanged for 69,284 shares of our Class B common stock, which shares were substituted for CB Richard Ellis Services shares as security for the note. Mr. White's promissory note was subsequently amended in 2001, terminating the First Amendment and adjusting the original 1998 Stock Purchase Agreement by reducing the purchase price from \$13.89 to \$5.77. The 25,000 shares held as security for the Second Amended Promissory Note were tendered as full payment for this note. The remaining note delivered by Mr. White accrues interest at 7.40% per year and all principal and accrued interest is payable on August 31, 2010. As part of our acquisition of CB Richard Ellis Services in 2001, the 20,000 shares of CB Richard Ellis Services common stock purchased by Mr. White were exchanged for 55,427 shares of our Class B common stock, which shares were substituted for CB Richard Ellis Services shares as security for the note. Pursuant to the EIP, Mr. Wirta

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purchased 30,000 shares of CB Richard Ellis Services common stock in 2000 at a purchase price of \$12.875 that was paid for by the delivery of a full-recourse promissory note. The note accrues interest at 7.40% per year and all principal and accrued interest is payable on August 31, 2010. As part of the acquisition, the 30,000 shares of CB Richard Ellis Services common stock were exchanged for 83,140 shares of our Class B common stock, which shares were substituted for the CB Richard Ellis Services shares as security for the note. All interest charged on the outstanding promissory note balances for any year is forgiven if the executive's performance produces a high enough level of bonus, with approximately \$7,500 of interest forgiven for each \$10,000 of bonus. In 2003, our board of directors forgave all 2002 interest on Mr. White's and Mr. Wirta's notes. Based on the 2003 bonuses paid to Messrs. Wirta and White in the first quarter of 2004, we expect all interest charged on their outstanding promissory notes in 2003 to be forgiven in 2004.

- (3) Pursuant to Mr. Blain's employment agreement, he received a schooling and housing allowance of \$120,000 in 2002 and \$157,692 in 2003.
- (4) In connection with our acquisition of CB Richard Ellis Services in 2001, we offered and sold shares of our Class A common stock for \$5.77 per share to certain of our employees, including 177,541 shares to Mr. Wirta and 73,615 shares to Mr. White. If the employment of the owner of such shares is terminated, we have the right to repurchase a portion of the shares at either fair market value or the amount paid for such shares by the owner, which depends upon whether the owner was terminated for cause or voluntarily left for a good reason, as such terms are defined in the owner's subscription agreement. On each of the first five anniversaries of the July 20, 2001 purchase date of the shares, 20% of the shares initially subject to repurchase cease to be subject to the right of repurchase. Accordingly, at December 31, 2003, 60% of such shares acquired by Mr. Wirta and Mr. White remain subject to repurchase. The per share consideration paid for these shares was the same as the per share consideration paid by certain of our stockholders to acquire shares of our Class A common stock and Class B common stock on July 20, 2001, which consideration was used to partially finance our acquisition of CB Richard Ellis Services. Our shares of Class A common stock are not publicly traded. Accordingly, the Summary Compensation Table reflects a valuation of \$0 for these restricted stock awards.
- (5) In connection with our acquisition of CB Richard Ellis Services in 2001, we awarded cash retention bonuses to Messrs. Wirta, White and Leonetti to provide an incentive and reward for continued service up to and including the date of the acquisition. At the effective time of the acquisition, Messrs. Wirta, White and Leonetti also received for each of their options to purchase shares of CB Richard Ellis Services common stock the greater of (a) the amount by which \$16.00 exceeded the exercise price of the option, if any, and (b) \$1.00.
- (6) As described in greater detail in footnote (2) above, the promissory note delivered by Mr. White in 1998 as consideration for his purchase of 25,000 shares of CB Richard Ellis Services common stock for \$38.50 per share, or a total of \$962,500, was amended to adjust the principal amount of such promissory note to \$400,000. The \$562,500 difference is included as other compensation for Mr. White.
- (7) Mr. Kay joined us effective June 13, 2002.
- (8) Pursuant to Mr. Kay's employment agreement, he received a sign-on bonus of \$300,000.
- (9) Mr. Leonetti ceased to be an executive officer and an employee of ours on July 19, 2002.
- (10) In connection with the termination of Mr. Leonetti's employment, he received a severance payment of \$170,000.
- (11) Pursuant to a separation agreement executed on November 19, 2001, Mr. Leonetti received a payment of \$300,000.
- (12) Mr. Froggatt joined us, effective July 23, 2003, when we acquired Insignia.

(13) Mr. Froggatt received a car allowance of \$20,777 in 2003.

(14) Mr. Froggatt received a benefit of \$566 under our life insurance program.

(15) Mr. Blain joined us effective January 23, 2002.

(16) Pursuant to Mr. Blain's employment agreement, he received a one-time transfer allowance of \$15,000.

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The following table sets forth information concerning stock option grants to our executive officers during the year ended December 31, 2003, each of which was granted pursuant to our 2001 stock incentive plan:

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in 2003	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
					Ray Wirta	232,794
Brett White	232,794	7.9	5.77	9/16/13	845,234	2,141,990
Kenneth J. Kay	99,769	3.4	5.77	9/16/13	362,243	917,996
Alan C. Froggatt	83,141	2.8	5.77	9/16/13	301,869	764,996
Robert Blain	69,284	2.4	5.77	9/16/13	251,558	637,497

Each of the options disclosed in the option grant table above vests 20% per anniversary of the September 16, 2003 grant date.

***Aggregated Options Table***

The following table sets forth information concerning unexercised options held as of December 31, 2003 by the persons named in the table under Summary Compensation Table. No options were exercised by our executive officers during 2003.

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ray Wirta			195,273	525,705		
Brett White			157,172	468,552		
Kenneth J. Kay			34,365	237,229		
Alan C. Froggatt				83,141		
Robert Blain				69,284		

**Incentive Plans**

***2001 Stock Incentive Plan***

Our 2001 stock incentive plan was adopted by our board of directors, and approved by our stockholders, on June 7, 2001. The 2001 stock incentive plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. A total of 18,013,857 shares of Class A common stock have been reserved for issuance under the 2001 stock incentive plan, and 9,690,004 shares remained available for future issuance as of May 31, 2004. The number of shares issued or reserved pursuant to the 2001 stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. Class A common stock covered by awards that expire, terminate or lapse will again be available for option or grant under the 2001 stock incentive plan. No award may be granted under the 2001 stock incentive plan after June 7, 2011, but awards granted prior to June 7, 2011 may extend beyond that date.

The 2001 stock incentive plan is administered by our board of directors, which may delegate its duties and powers in whole or in part to any committee of the board of directors. The board of directors has the sole discretion to determine the employees, directors and independent contractors to whom awards may be granted under the 2001 stock incentive plan and the manner in which the awards will vest. Options, stock appreciation

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rights, restricted stock, restricted stock units and other stock-based awards will be granted by the board of directors to employees, directors and independent contractors in the numbers and at the times during the term of the 2001 stock incentive plan as the board of directors determines.

Unless otherwise determined by our board of directors, awards granted under the 2001 stock incentive plan are not transferable other than by will or by the laws of descent and distribution. In the event of a change of control, which is defined in the 2001 stock incentive plan, (1) any outstanding awards then held by participants, including executive officers, which are unvested or otherwise unexercisable will automatically be deemed exercisable or otherwise vested, as the case may be, as of immediately prior to the change of control and (2) our board of directors may (a) provide for a cash payment to the holder of an award in consideration for the cancellation of the award and/or (b) provide for substitute or adjusted awards.

Our 2001 stock incentive plan is expected to be terminated prior to the completion of the offering. Outstanding stock awards granted under the 2001 stock incentive plan will remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards.

***2004 Stock Incentive Plan***

Our board of directors has adopted, and our stockholders have approved, our 2004 stock incentive plan, which will become effective on the date the registration statement of which this prospectus is a party is declared effective by the SEC. The 2004 stock incentive plan authorizes the grant of stock-based awards to our employees, directors and consultants.

A total of 6,928,406 shares of our Class A common stock have been reserved for issuance under the 2004 stock incentive plan. This share reserve will be reduced by one share upon exercise or redemption of an option or stock appreciation right, and reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Shares of our common stock covered by awards that expire, terminate, lapse, are reacquired by us or are redeemed for cash rather than shares will again be available for grant under the stock incentive plan. No employee will be eligible to be granted options or stock appreciation rights covering more than 2,078,522 shares during any calendar year. In addition, our board of directors has adopted a policy stating that no person will be eligible to be granted options, stock appreciation rights, or restricted stock purchase rights covering more than 692,841 shares during any calendar year and to be granted any other form of stock award permitted under the 2004 stock incentive plan covering more than 346,420 shares during any calendar year.

The number of shares issued or reserved pursuant to the 2004 stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of mergers, consolidations, reorganizations, stock splits, stock dividends and other dilutive changes in our common stock. In addition, our board of directors may adjust outstanding awards to preserve the awards' benefits or potential benefits.

Our board of directors has delegated administration of the 2004 stock incentive plan to the compensation committee. The compensation committee, or our board of directors if the delegation of authority to the compensation committee is terminated in the future, has the authority to:

designate participants in the plan;

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determine the type(s), number, terms and conditions of awards, as well as the timing and manner of grant;

interpret the plan; establish, adopt or revise any rules and regulations to administer the plan; and

make all other decisions and determinations that may be required under the plan.

Incentive stock options must have an exercise price that is at least equal to, and nonstatutory stock options an exercise price at least 85% of, the fair market value of our Class A common stock on the date the option is granted. An option holder may exercise an option by payment of the exercise price (1) in cash, (2) according to a

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deferred payment or similar arrangement, (3) pursuant to a same day sale program, (4) by the surrender of a number of shares of Class A common stock already owned by the option holder for at least six months with a fair market value equal to the exercise price or (5) by a combination approved by the board. In the event of the option holder's termination, the option holder will generally have up to three months (up to one year if due to disability or 18 months if due to death) from termination to exercise his/her vested options.

Directors who are neither employed by us nor receive a management fee from us will each automatically receive an annual grant of stock options with a per share exercise price equal to the fair market value of our Class A common stock and an aggregate exercise price equal to \$50,000. They will also each automatically receive an annual grant of restricted stock worth a total of \$25,000 on the date of grant.

Our board of directors may award restricted stock bonuses. Our board may also award restricted stock units, which entitle the participant the right to receive one share of common stock per unit at the time the unit vests, with delivery of such common stock on a date chosen by the participant. For both restricted stock bonuses and units, vesting will generally be based on the participant's continuous service. In the event a participant's continuous service terminates, all unvested common stock as of the date of termination will be subject to our reacquisition.

Our board of directors may grant stock appreciation rights independent of or in connection with an option. The base price per share of a stock appreciation right may be no less than 85% of the fair market value of our Class A common stock. Generally, each stock appreciation right will entitle a participant upon redemption to an amount equal to (a) the excess of (1) the fair market value on the redemption date of one share of common stock over (2) the base price, times (b) the number of shares of common stock covered by the stock appreciation right. To the extent a stock appreciation right is granted concurrently with an option, the redemption of the stock appreciation right will proportionately reduce the number of shares of common stock subject to the concurrently granted option. Payment shall be made in common stock or in cash, or a combination of both, as determined by the board. The plan also allows for grants of other stock-based awards such as restricted stock purchase rights, phantom stock units, performance shares and performance share units.

Unless otherwise determined by our board of directors or provided for in a written agreement evidencing an award, awards granted under the 2004 stock incentive plan are not transferable other than by will or by the laws of descent and distribution.

In the event of a change of control, as defined in the stock incentive plan, other than dissolution, the board may provide for the (1) assumption or continuation of any stock awards outstanding under the plan, (2) issuance of substitute awards that will substantially preserve the terms of any awards, (3) payment in exchange for the cancellation of an award or (4) termination of an award upon the consummation of the change of control, but only if the participant has been permitted to exercise or redeem an option or stock appreciation right prior to the change of control. Furthermore, at any time the board may provide for the acceleration of exercisability and/or vesting of an award.

Our board of directors may amend, suspend, or terminate the stock incentive plan in any respect at any time, but no amendment may materially impair any of the rights of a participant under any awards previously granted, without his/her consent.

***Deferred Compensation Plan***



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Our deferred compensation plan, or DCP, historically has permitted a select group of management employees, as well as other highly compensated employees, to elect, immediately prior to the beginning of each calendar year, to defer receipt of some or all of their compensation for the next year generally either after his or her employment with us ends or until a future distribution date at least three years after the deferred election date, and have it credited to one or more of several funds in the DCP. The investment alternatives available to participants in connection with their deferrals include two interest index funds and an insurance fund in which

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gains and losses on deferrals are measured by one or more of approximately 30 mutual funds. In addition, prior to our acquisition of CB Richard Ellis Services in 2001, participants were entitled to invest their deferrals in stock fund units that entitled the participants to receive future distributions of shares of our common stock, which stock fund units now represent the right to receive future distributions of shares of CB Richard Ellis Group common stock. As of May 31, 2004, there were 3,129,279 shares underlying outstanding stock fund units under the DCP, of which 1,948,133 had vested, which shares are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants or distributions by us. The deferred compensation plan permits participants to elect in-service distributions, which may not begin less than three years following the election and post-employment distributions. There is limited flexibility to change distribution elections once made. A participant may elect to receive a distribution of his or her vested accounts at any time subject to a charge equal to 7.5% of the amount to be distributed.

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

***401(k) Plan***

We maintain a tax qualified 401(k) retirement plan. Generally, our employees are eligible to participate in the plan if they are at least 21 years old. The plan provides for participant contributions, as well as discretionary contributions by us. A participant is allowed to contribute to the plan from 1% to 50% of his or her compensation, subject to limits imposed by applicable law. Each year, we determine an amount of employer contributions that we will contribute, if any, to the plan based on the performance and profitability of our consolidated U.S. operations. Our contributions for a year are allocated to participants who are actively employed on the last day of the plan year in proportion to each participant's pre-tax contributions for that year, up to 5% of the participant's compensation.

In connection with our acquisition of CB Richard Ellis Services in 2001, participants were entitled to make a one-time election to invest in shares of our common stock to be credited to their account balance within the plan, which shares continue to be held in the plan. Since the 2001 acquisition, participants have not been entitled to purchase additional shares of our common stock for allocation to their account balance. We expect to amend the plan, effective shortly after completion of the offering, to allow participants in the plan to transfer their account balances into and out of shares of our common stock, as well as to purchase additional shares of our common stock in connection with future deferrals under the plan.

A participant may elect to receive a distribution from the plan in a single lump sum payment of his or her account balance following termination of the participant's employment with us. However, if the participant has an account balance in our common stock fund, the participant may receive all or a portion of his or her balance in that fund either in shares or in cash. We expect to amend the plan, effective shortly after completion of the offering, to provide that participants thereafter may only receive their account balances in the common stock fund in cash.

**Employment Agreements with Executive Officers**

*Kenneth J. Kay*

On June 13, 2002, Mr. Kay entered into a two-year employment agreement with us to serve as our chief financial officer. Pursuant to Mr. Kay's employment agreement, he received a sign-on bonus of \$300,000 and he receives an annual base salary of \$450,000 and is eligible for an annual bonus of up to 66<sup>2</sup>/<sub>3</sub>% of his base salary based upon the achievement of performance goals established by our board of directors. Additionally, Mr. Kay

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was granted options to purchase 171,824 shares of our Class A common stock at a \$5.77 per share exercise price, which vest 20% per year on the anniversary date of the grant over the next five years. Pursuant to the terms of the our 2001 stock incentive plan, all unvested options held by Mr. Kay will automatically vest if there is a change of control, as defined in the plan.

If prior to the second anniversary of the agreement we terminate Mr. Kay's employment for any reason, he is entitled to receive a severance payment equal to 100% of one year's base salary. If Mr. Kay voluntarily resigns from his employment within the first 24 months of employment, he will not be eligible to receive this severance payment. In the event that Mr. Kay's employment is terminated as a result of a change of control, he is eligible to receive 150% of one year's base salary as a severance payment in lieu of any other severance payment to which he would otherwise be entitled. Mr. Kay's employment agreement also contains a customary provision regarding confidentiality following his termination of employment with us.

***Alan C. Froggatt***

In connection with our acquisition of Insignia in 2003, Mr. Froggatt, our President, EMEA, entered into an amended and restated executive service agreement with us, which became effective upon the date of the closing of the acquisition on July 23, 2003 and superseded his prior employment agreement with Richard Ellis Group Limited. This agreement provides that Mr. Froggatt's employment may be terminated by us at any time.

This agreement also provides that Mr. Froggatt will have a fixed salary at the rate of £250,000 per year and the opportunity to earn an annual target bonus of £250,000 under our management bonus plan. For calendar year 2003, we agreed that Mr. Froggatt's annual bonus under the management bonus plan would be no less than £150,000. Also under the agreement, Mr. Froggatt is entitled to reimbursement of business-related expenses and to certain benefits and perquisites, including health insurance and life insurance benefits maintained by us from time to time.

The agreement further provides that if Mr. Froggatt's employment is terminated by us prior to December 31, 2004, he will be entitled to continue to receive his fixed salary, bonus and contractual benefits through December 31, 2005. If Mr. Froggatt's employment is terminated by us on or subsequent to December 31, 2004, he will be entitled to continue to receive his fixed salary, bonus and contractual benefits for (1) twelve months following the date of termination of his employment if we previously have not provided Mr. Froggatt with a twelve-month notice of our intention to terminate the employment agreement, or (2) if we have provided Mr. Froggatt with a twelve-month notice of our intention to terminate the employment agreement, for the remaining term of the twelve-month notice period.

Mr. Froggatt's agreement generally provides that (1) he will not engage, assist or have an interest in any undertaking which provides services similar to those provided by us or our affiliates in the United Kingdom for a period of one year following termination of his employment, (2) he will not employ, solicit or engage any person who was a senior executive or consultant of us or our affiliates for a period of one year following termination of his employment and (3) he will not solicit or interfere with or endeavor to entice away from us or our affiliates any person, firm, company or entity in the United Kingdom who was a client of us or our affiliates for a period of one year following termination of his employment.

***Robert Blain***

On January 23, 2002, Mr. Blain, our President, Asia Pacific, entered into an employment agreement with us which extends for an indefinite term, subject to termination by either Mr. Blain or by us for any reason. Under the terms of his employment agreement, Mr. Blain receives an annual base salary of \$300,000, subject to annual review and adjustment. Mr. Blain also is eligible to earn an annual bonus based upon the level of profitability achieved by us in the greater China region during the applicable fiscal year.

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If Mr. Blain's employment terminates for any reason other than his voluntary resignation or on account of his misconduct, he will be entitled to receive a payment of his annual bonus, calculated at the end of the year during which the termination occurs and pro-rated based on the date of termination. If Mr. Blain voluntarily resigns or is terminated by us due to misconduct, he will not be eligible to receive a pro-rated bonus for the year in which his employment terminates. Mr. Blain's employment agreement also contains a provision regarding confidentiality during and following termination of his employment with us, as well as a non-competition and non-solicitation provision for terms of three months and six months, respectively, following the termination of his employment.

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**RELATED PARTY TRANSACTIONS**

**Securityholders Agreement**

In connection with our acquisition of CB Richard Ellis Services in 2001, we and CB Richard Ellis Services entered into a securityholders agreement with our stockholders listed below:

our stockholders affiliated with Blum Capital Partners, L.P.;

our stockholders affiliated with Freeman Spogli & Co. Incorporated;

Ray Wirta, who is our Chief Executive Officer;

Brett White, who is our President;

Frederic V. Malek, who is one of our directors;

The Koll Holding Company;

California Public Employees Retirement System, or CalPERS; and

our stockholders that purchased shares of our Class A common stock in connection with the issuance on July 20, 2001 of our 16% senior notes due 2011, some of whom are affiliates of Credit Suisse First Boston LLC.

The securityholders agreement defines various rights of the stockholders that are parties to the agreement related to their ownership of common stock. Many of these rights will terminate as a result of the completion of the offering.

***Prior to Completion of the Offering***

Each of the following provisions apply prior to the completion of the offering but will terminate simultaneously with the completion of the offering:

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*Designation of Directors and Board Observers.* The agreement provides that, prior to the offering, the parties to the agreement that own shares of our Class B common stock, which consist of the stockholders in the first six bullet points above, will vote all of the shares of our voting capital stock they own to elect to our board of directors individuals designated as follows:

five directors designated by our stockholders affiliated with Blum Capital Partners;

one director designated by our stockholders affiliated with Freeman Spogli;

Ray Wirta; and

Brett White.

In addition, the following stockholders are entitled to the following numbers of non-voting observers at each of the meetings of our board of directors prior to the completion of the offering:

for so long as our stockholders affiliated with Freeman Spogli collectively own at least 7.5% of our outstanding common stock, they are entitled to have two non-voting observers at meetings;

for so long as our stockholders that purchased their shares in connection with the 2001 offering of our 16% senior notes, collectively, own at least 1.0% of our outstanding common stock or a majority in principal amount of the 16% senior notes, they generally are entitled to have one observer at meetings; and

for so long as CalPERS owns any shares of our outstanding common stock, it is entitled to have one observer at meetings.



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*Voting and Transfer Restrictions.* Subject to limited exceptions, each of the parties to the agreement that owns shares of our Class B common stock agreed to vote all the shares of our voting capital stock it or he beneficially owns on matters to be decided by our stockholders in the same manner as our stockholders affiliated with Blum Capital Partners vote the shares that they beneficially own. As a result, prior to the completion of the offering, on most matters to be decided by our stockholders, our stockholders affiliated with Blum Capital Partners are able to control the outcome. The agreement also provides that the consent of our director designated by the stockholders affiliated with Freeman Spogli is required before we are able to take certain actions, including, subject to exceptions, incurring certain indebtedness, consummating certain acquisitions or dispositions and issuing stock or options to our employees.

Also prior to completion of the offering, the securityholders' agreement includes restrictions on transfers of shares by the stockholder parties to the agreement, as well as provisions regarding a right of first offer for potential sales and co-sales of shares and required sale rights applicable in connection with sale transactions involving our shares and participation rights regarding future issuances of our shares of common stock.

*Other Rights.* Prior to the offering, each of our stockholders that is a party to this agreement generally has the right to receive specified annual, quarterly and monthly financial information about us and is able to inspect our books, records and properties and to discuss our affairs, finances and accounts with our officers and independent auditor.

### ***After Completion of the Offering***

Each of the following provisions will apply after the completion of the offering, subject to termination pursuant to the terms of the securityholders' agreement:

*Nomination of Directors and Voting.* Following the completion of the offering, our stockholders affiliated with Blum Capital Partners will be entitled to nominate a percentage of our total number of directors that is equivalent to the percentage of the outstanding common stock beneficially owned by these affiliates, with this percentage of our directors being rounded up to the nearest whole number of directors. Also following the offering, our stockholders affiliated with Freeman Spogli will be entitled to nominate one person to our board of directors for so long as these stockholders, collectively, beneficially own at least 7.5% of our outstanding common stock. The stockholders that are parties to the securityholders' agreement that currently own shares of our Class B common stock, other than Mr. Malek, will be obligated to vote their shares after the offering in favor of the directors nominated by these affiliates of Blum Capital Partners and Freeman Spogli. Immediately after completion of the offering, these stockholders, collectively, will beneficially own approximately 56.3% of our outstanding common stock.

*Registration Rights.* Each of the stockholders that are parties to this agreement has registration rights, which are described in further detail under the heading titled "Description of Capital Stock - Registration Rights."

### ***Indemnification***

Both before and after the offering, we are obligated to indemnify the stockholders that are parties to the securityholders' agreement and each of their respective affiliates, controlling persons, directors, officers, employees and agents from and against any and all damages, claims, losses, expenses, costs, obligations and liabilities, including all reasonable attorneys' fees and expenses but excluding special or consequential damages,

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arising from, relating to or otherwise in respect of, any governmental or other third party claim against these indemnified persons that arises from, relates to or is otherwise in respect of (1) our business, operations, liabilities or obligations or (2) the ownership by the stockholders or any of their respective affiliates of any of our equity securities, except to the extent these losses and expenses (x) arise from any claim that the indemnified person's investment decision relating to the purchase or sale of these equity securities violated a duty or other

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obligation of the indemnified person to the claimant or (y) are finally determined in a judicial action by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the stockholder or its affiliates.

**Loans to Our Executive Officers**

***Currently Outstanding Loans***

*Loan Related to Acquisition of Common Stock by Ray Wirta.* At the time of our acquisition of CB Richard Ellis Services in 2001, Mr. Wirta delivered a full-recourse note in the amount of \$512,504 as payment for a portion of our shares of Class A common stock purchased in connection with an offering of shares of our Class A common stock to our employees in 2001. Mr. Wirta's promissory note is repayable upon the earliest to occur of the following: (1) July 20, 2010, (2) 180 days following Mr. Wirta's termination of employment if terminated by us without cause, by him for good reason or as a result of his death or disability and (3) 90 days following Mr. Wirta's termination of employment if terminated for any reason not described in clause (2) above. This note bears interest at 10.0% per year. During 2002 and 2003, Mr. Wirta paid down his loan amount by \$40,004 and \$70,597, respectively. As of March 31, 2004 and December 31, 2003, Mr. Wirta has an outstanding loan balance of \$401,903, which is included in notes receivable from the sale of common stock in our consolidated balance sheet included elsewhere in this prospectus.

*1996 Equity Incentive Plan Loans to Ray Wirta and Brett White.* Each of Mr. Wirta and Mr. White has an outstanding loan pursuant to the CB Richard Ellis Services 1996 Equity Incentive Plan, which loans are described in further detail under the heading "Management Compensation of Executive Officers."

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

***Previously Outstanding Loans***

*Retention and Recruitment Award Loans.* In the past we have made loans to our employees that represent prepaid retention and recruitment awards at varying principal amounts, bearing interest at rates up to 10.0% per annum and maturing on various dates through 2007. As of December 31, 2003, the outstanding employee loan balances included a \$0.3 million loan to Ray Wirta and a \$0.2 million loan to Brett White. These non-interest-bearing loans to Mr. Wirta and Mr. White were issued during 2002 and were due and payable on December 31, 2003. The

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compensation committee of our board of directors forgave these loans to Messrs. Wirta and White in full, effective January 1, 2004.

*Loans Related to Acquisitions of Common Stock.* In the past, we have made full recourse loans to employees, officers and certain of our stockholders for the purchase of shares of our common stock. These loans

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are secured by shares of our common stock that are owned by the borrowers. As of December 31, 2003, Mr. White had an outstanding loan of \$179,886, which amount is included in notes receivable from sale of common stock in the accompanying consolidated balance sheets included elsewhere in this prospectus. This loan relates to the acquisition of 12,500 shares of CB Richard Ellis Services common stock prior to our acquisition of CB Richard Ellis Services in 2001. Subsequent to the 2001 acquisition, these shares were converted into shares of our common stock and the related loan amount was carried forward. As amended, this loan accrued interest at 6.0% and the principal and all accrued interest was payable on or before April 23, 2010. Mr. White repaid this loan in full on February 10, 2004.

At the time of our acquisition of CB Richard Ellis Services, Mr. Wirta delivered to us an \$80,000 promissory note as payment for the purchase of 13,856 shares of our Class B common stock. Mr. Wirta repaid this promissory note in full in April of 2002. Additionally, Mr. White delivered a full-recourse note in the amount of \$209,734 as payment for a portion of our shares of Class A common stock purchased in connection with an offering of shares of our Class A common stock to our employees in 2001. This note bore interest at 10.0% per year. During 2002, Mr. White paid off his note in its entirety.

*1996 Equity Incentive Plan Loans to Ray Wirta and Brett White.* In addition to the currently outstanding loan referenced above, Mr. White had an outstanding loan pursuant to the CB Richard Ellis Services 1996 Equity Incentive Plan that was repaid in full, which loan is described in further detail under the heading titled Management Compensation of Executive Officers.

**Transactions Related to Our Acquisition of CB Richard Ellis Services in 2001**

*Purchases of Common Stock and Grants of Stock Options.* In connection with our acquisition of CB Richard Ellis Services in 2001, our stockholders that currently own shares of our Class B common stock, collectively, contributed 7,967,774 shares of CB Richard Ellis Services common stock to us in exchange for 22,081,590 shares of our Class B common stock. Also in connection with the acquisition, our stockholders affiliated with Blum Capital Partners made aggregate cash contributions to us of approximately \$71.0 million in exchange for an aggregate of 12,291,419 shares of our Class B common stock and CalPERS made a cash contribution of \$10.0 million in exchange for 1,732,101 shares of our Class A common stock.

Also in connection with the acquisition, we offered and sold shares of our Class A common stock to certain of our employees at the time that were designated by our board of directors in consultation with Ray Wirta and Brett White. If each of these designated employees subscribed for a specified number of shares that was determined by our board of directors, they were entitled to receive a grant of options to acquire our Class A common stock. These options have an exercise price of \$5.77 per share and a term of 10 years, with 20% of the options vesting on each of the first five anniversaries of the completion of the acquisition and all vesting if there is a change in control of us. In connection with this offering, Ray Wirta purchased 177,541 shares of our Class A common stock and received a grant of 488,184 options to acquire Class A common stock and Brett White purchased 73,615 shares of our Class A common stock and received a grant of 392,929 shares of our Class A common stock. As described in greater detail above, Mr. Wirta delivered a full-recourse note to us in the aggregate principal amount of \$512,504 as payment for a portion of his shares and Mr. White delivered a full-recourse note in the aggregate principal amount of \$209,734 as payment for a portion of his shares. Each of Mr. Wirta and Mr. White pledged as security for his full-recourse note a number of shares having an offering price equal to 200% of the amount of his note.

*Transaction Fees.* In connection with advisory services related to our acquisition of CB Richard Ellis Services in 2001, we paid a fee of \$3.0 million to an affiliate of Blum Capital Partners and \$2.0 million to an affiliate of Freeman Spogli. These advisory services included, among other things, transaction and structuring analysis, financing analysis and the arrangement and negotiation of debt and equity financing. The amounts of these fees were the result of negotiations among the affiliates of Blum Capital Partners and Freeman Spogli and the other parties that provided

equity financing in connection with our acquisition of CB Richard Ellis Services.

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We also reimbursed certain expenses of our stockholders affiliated with Blum Capital Partners and Freeman Spogli.

*Treatment of Warrants to Acquire Shares of CB Richard Ellis Services Common Stock.* Pursuant to an agreement entered into in connection with the acquisition of CB Richard Ellis Services, we issued to our stockholders affiliated with Freeman Spogli a warrant to acquire 708,019 shares of our Class B common stock at an exercise price of \$10.825 per share in exchange for the cancellation of previously outstanding warrants to acquire 364,884 shares of CB Richard Ellis Services common stock. These warrants will automatically be exercised on a cashless basis in connection with the completion of the offering. For additional information regarding these warrants, see the heading titled "Description of Capital Stock - Warrants."

Also pursuant to the same agreement, previously outstanding warrants to acquire 84,988 shares of CB Richard Ellis Services common stock beneficially owned by Ray Wirta and The Koll Holding Company were cancelled and Mr. Wirta and The Koll Holding Company received \$1.00 per share underlying these warrants in connection with the closing of the 2001 acquisition.

**Transactions Related to Our Acquisition of Insignia in 2003**

In connection with our acquisition of Insignia, our stockholders affiliated with Blum Capital Partners made aggregate cash contributions to us of \$105,394,160 in exchange for an aggregate of 18,255,338 shares of our Class B common stock, CalPERS made a cash contribution to us of \$10.0 million in exchange for 1,732,101 shares of our Class A common stock, some of our stockholders affiliated with Credit Suisse First Boston LLC, or CSFB, made aggregate cash contributions to us of \$3,645,840 in exchange for an aggregate of 631,496 shares of our Class A common stock and Frederic V. Malek made a cash contribution to us of \$960,000 in exchange for 166,281 shares of our Class B common stock.

**Debt Financing and Other Fees Paid to CSFB and its Affiliates**

Affiliates of CSFB beneficially own approximately 27.8% of our outstanding Class A common stock and 3.3% of our Class A common stock and Class B common stock combined, in each case as of May 31, 2004. In connection with our acquisition of Insignia in 2003, CSFB or certain of its affiliates received customary fees and reimbursement of expenses for (1) its role as administrative agent and collateral agent with respect to the amendment and restatement of our senior secured credit facilities in May 2003, (2) its role as lead book-running manager in connection with the May 2003 offering and initial purchase of our 9<sup>3</sup>/<sub>4</sub>% senior notes due 2010 and (3) the performance of mergers and acquisitions advisory services. In connection with the acquisition of CB Richard Ellis Services in 2001, CSFB or certain of its affiliates also received customary fees and reimbursement of expenses for (a) its role as administrative agent and collateral agent with respect to our senior secured credit facilities in July 2001, (b) its role as lead book-running manager in connection with the June 2001 offering and initial purchase of our 11<sup>1</sup>/<sub>4</sub>% senior subordinated notes due 2011 and (c) its role as initial purchaser of, and its commitment to purchase, our 16% senior notes due 2011. CSFB or certain of its affiliates also received customary fees and reimbursement of expenses for its role in the refinancing of our senior secured credit facilities both in October 2003 and in connection with the completion of the offering. In each case with respect to the services provided by CSFB and its affiliates, the fees received were in conformity with prevailing market rates for services of that nature.

**Co-Investment with CalPERS**

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California Public Employees Retirement System, or CalPERS, beneficially owns approximately 5.7% of our Class A common stock as of May 31, 2004. In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C., entered into a joint venture with CalPERS. This joint venture, Global Innovation Partners, targets real estate and private equity investments and expected opportunities created by the convergence of technology and real estate. The managing member of the joint venture is 50% owned by one of our subsidiaries.



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In connection with formation of the joint venture, CBRE Investors, CalPERS and some of our employees entered into an aggregate of \$526 million of capital commitments to Global Innovations Partners, of which CalPERS committed an aggregate of \$500 million.

**Other Business Relationships with Our Directors**

CBRE Investors and certain investment funds managed by it retained the law firm of Mayer, Brown, Rowe & Maw LLP, including its predecessors, to provide legal services during each of 2003, 2002 and 2001. Michael Kantor, who has been a member of our board of directors since February 2004, currently is a partner at Mayer, Brown, Rowe & Maw LLP.

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The table below sets forth the number of shares of our Class A common stock and Class B common stock beneficially owned, and the percentage ownership of our common stock, as of May 31, 2004 for the following persons:

each person that beneficially owns 5% or more of our Class A common stock or our Class B common stock;

each of our directors;

each of our executive officers;

all of our directors and executive officers as a group; and

each selling stockholder.

All outstanding shares of Class B common stock will convert at a 1-for-1 ratio into shares of Class A common stock in connection with the completion of the offering. For additional information regarding our common stock, see the heading titled "Description of Capital Stock - Common Stock."

Except as otherwise noted below, the address for each person listed on the table is c/o CB Richard Ellis Group, Inc., 865 South Figueroa Street, Suite 3400, Los Angeles, California 90017. Beneficial ownership is determined in accordance with the federal securities rules that generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares subject to options or warrants held by that person that are or will become exercisable within 60 days of May 31, 2004 are deemed outstanding, although the shares are not deemed outstanding for purposes of computing percentage ownership of any person.

	Shares Beneficially Owned Prior to the Offering (1)		Shares to be Sold in the Offering (2)	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent (3)
<b>Greater than 5% Stockholders:</b>					
Blum Strategic Partners, L.P.					
Blum Strategic Partners II, L.P.					
Blum Strategic Partners II GmbH & Co. KG (4)(5)	40,705,938	67.2%	11,495,606	29,210,332	42.6%
FS Equity Partners III, L.P.					
FS Equity Partners International, L.P. (4)(6)	9,429,458	15.6	2,748,967	6,985,125	10.2

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California Public Employees Retirement System (7)	3,464,202	5.7	978,312	2,485,890	3.6
DLJ Investment Partners II, L.P.					
DLJ Investment Partners, L.P.					
DLJIP II Holdings, L.P. (8)(9)	1,990,790	3.3	562,212	1,428,578	2.1
<b>Executive Officers and Directors:</b>					
Ray Wirta (4)(10)	2,012,963	3.3		2,012,963	2.9
Brett White (4)(11)	468,725	*		468,725	*
Kenneth J. Kay (12)	68,729	*		68,729	*
Alan C. Froggatt					
Robert Blain					
Richard C. Blum (4)(5)	40,705,938	67.2	11,495,606	29,210,332	42.6
Jeffrey A. Cozad (4)(5)	40,705,938	67.2	11,495,606	29,210,332	42.6
Patrice Marie Daniels					
Bradford M. Freeman (4)(6)	9,429,458	15.6	2,748,967	6,985,125	10.2
Michael Kantor					
Frederic V. Malek	1,268,931	2.1	358,354	910,577	1.3
Jeffrey S. Pion (13)	16,121	*		16,121	*
Gary L. Wilson					
All directors and executive officers as a group	53,970,865	88.1	14,602,927	39,672,572	57.3
<b>Other Selling Stockholders:</b>					
Donald Koll (4)(14)	372,642	*	105,236	267,406	*
Stanfield Arbitrage CDO, Ltd.					
Stanfield CLO, Ltd.					
Stanfield/RMF Transatlantic CDO, Ltd. (15)	72,443	*	20,458	51,985	*
Provident Financial Group, Inc. (16)	14,488	*	4,091	10,397	*

(footnotes on following page)

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*(footnotes for previous page)*

\* less than 1.0%

- (1) Our outstanding common stock as of May 31, 2004 includes 7,173,053 shares of our Class A common stock and 53,409,550 shares of our Class B common stock. All shares of outstanding common stock indicated as beneficially owned by 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., Frederic V. Malek and Donald Koll are Class B common stock. Among the shares of outstanding common stock indicated as beneficially owned by Ray Wirta and Brett White, 1,542,512 of Mr. Wirta's shares are Class B common stock and 90,069 of Mr. White's shares are Class B common stock. All other shares of outstanding common stock are Class A common stock.
- (2) If the underwriters exercise in full their over-allotment option, the selling stockholders will sell 3,600,000 additional shares of Class A common stock, which sale is not reflected in the table above.
- (3) Percentage ownership is based on (a) the number of outstanding shares described in footnote (1) above, (b) the issuance and sale of 7,726,764 shares of Class A common stock by us in the offering and (c) the cashless exercise of warrants to acquire shares of our Class A common stock in connection with the offering, which will result in the issuance of an aggregate of 304,634 shares. All shares of outstanding common stock are Class A common stock.
- (4) As a result of the voting provisions set forth in the securityholders' agreement described in greater detail in this prospectus under the heading Related Party Transactions Securityholders' Agreement, this stockholder, together with our other stockholders that own shares of Class B common stock prior to the offering, other than Frederic V. Malek, may be deemed to constitute a group, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, after the offering. Accordingly, the group formed by these stockholders may be deemed to beneficially own 38,944,551 shares of our Class A common stock after the offering.
- (5) Prior to the offering, consists of 18,624,925 shares of our Class B common stock owned by Blum Strategic Partners, L.P., 21,634,935 shares of our Class B common stock owned by Blum Strategic Partners II, L.P. and 446,078 shares of our Class B common stock owned by Blum Strategic Partners II GmbH & Co. KG. In connection with the offering, Blum Strategic Partners will sell 5,259,793 shares, Blum Strategic Partners II, L.P. will sell 6,109,838 shares and Blum Strategic Partners II GmbH & Co. KG will sell 125,975 shares. The sole general partner of Blum Strategic Partners, L.P. is Blum Strategic GP, L.L.C., and the sole general partner of Blum Strategic Partners II, L.P. and the managing limited partner of Blum Strategic Partners II GmbH & Co. KG is Blum Strategic GP II, L.L.C. Richard C. Blum is a managing member of Blum Strategic GP, L.L.C. and each of Messrs. Blum and Cozad is a managing member of Blum Strategic GP II, L.L.C. Except as to any pecuniary interest, each of Messrs. Blum and Cozad disclaims beneficial interest in all of these shares. The business address of Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG, Blum Strategic GP, L.L.C., Blum Strategic GP II, L.L.C., Richard C. Blum and Jeffrey A. Cozad is 909 Montgomery Street, Suite 400, San Francisco, California 94133. As a result of the securityholders' agreement, Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P. and Blum Strategic Partners II GmbH & Co. KG share voting power over the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.
- (6) Prior to the offering, consists of 9,085,768 shares of our Class B common stock held by FS Equity Partners III, L.P., or FSEP III, and 343,690 shares of our Class B common stock held by FS Equity Partners International, L.P., or FSEP International. In connection with the offering, FSEP III will sell 2,648,771 shares and FSEP International will sell 100,196 shares. Shares beneficially owned after the offering reflects the cashless exercise of warrants to acquire shares of our Class A common stock in connection with the offering, which will result in the issuance of 293,531 shares to FSEP III and 11,103 shares to FSEP International. As general partner of FS Capital Partners, L.P., which is the general partner of FSEP III, FS



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Holdings, Inc. has the power to vote and dispose of the shares owned by FSEP III. As general partner of FS&Co. International, L.P., which is the general partner of FSEP International, FS International Holdings Limited has the power to vote and dispose of the shares owned by FSEP International. Bradford Freeman, who is one of our directors, Ronald Spogli, Frederick Simmons, William Wardlaw, John Roth and Charles Rullman, Jr. are the directors, officers and shareholders of FS Holdings, Inc. and FS International Holdings Limited, and may be deemed to be the beneficial owners of the shares of common stock, and rights to acquire common stock, owned by FSEP III and FSEP International. Brad Freeman is a director and owner of less than 10% of the securities of, and Ronald Spogli is the owner of less than 10% of the securities of, a registered broker-dealer. Both FSEP III and FSEP International acquired the shares of our common stock beneficially owned by them in the ordinary course of business and, at the times they acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of FSEP III, FS Capital Partners, L.P. and FS Holdings, Inc. and their directors, officers and beneficial owners is 11100 Santa Monica Boulevard, Suite 1900, Los Angeles, California 90025. The business address of FSEP International, FS&Co. International, L.P. and FS International Holdings Limited is c/o Paget-Brown & Company, Ltd., West Winds Building, Third Floor, Grand Cayman, Cayman Islands, British West Indies. As a result of the securityholders' agreement, FSEP III and FSEP International share voting power over the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.

- (7) CalPERS owns a less than 10% non-managing member interest in a registered broker-dealer. CalPERS acquired the shares of our common stock beneficially owned by it in the ordinary course of business and, at the times it acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of CalPERS is 400 P Street, Suite 3492, Sacramento, California 95814.
- (8) The shares of Class A common stock beneficially owned by these entities comprise 27.8% of our outstanding Class A common stock and 3.3% of our Class A common stock and Class B common stock combined, in each case as of May 31, 2004.
- (9) The shares beneficially owned include 1,131,342 shares of Class A common stock owned by DLJ Investment Partners II, L.P., 502,761 shares of Class A common stock owned by DLJ Investment Partners, L.P. and 356,687 shares of Class A common stock owned by DLJIP II Holdings, L.P. (collectively, the DLJIP Entities). In connection with the offering, DLJ Investment Partners, L.P. will sell 141,983 shares, DLJ Investment Partners II, L.P. will sell 319,498 shares and DLJIP II Holdings, L.P. will sell 100,731 shares. Credit Suisse First Boston, a Swiss bank, owns a majority of the voting stock of Credit Suisse First Boston, Inc., which in turn owns all the voting stock of Credit Suisse First Boston (USA), Inc. (CSFB-USA). The DLJIP Entities are private equity funds advised by subsidiaries of CSFB-USA. Credit Suisse First Boston LLC, one of the underwriters in this offering, is a direct subsidiary of CSFB-USA. Credit Suisse First Boston Capital LLC (CSFB Capital), an indirect wholly owned subsidiary of CSFB-USA, is a registered broker-dealer. Neither CSFB-USA nor CSFB Capital holds any ownership interest in the DLJIP Entities. The DLJIP Entities acquired the shares of our common stock beneficially owned by them in the ordinary course of business and, at the times they acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address for each of the DLJIP Entities is 11 Madison Avenue, 16th Floor, New York, NY 10010.
- (10) Includes 292,910 shares of Class A common stock subject to options that are exercisable or are exercisable within 60 days. As a result of the securityholders' agreement, Mr. Wirta shares voting power over 1,720,053 of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.

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- (11) Mr. White is co-trustee and, together with his wife Danielle, is the beneficiary of The White Family Trust, which owns 163,684 of the indicated shares. Includes 235,757 shares of Class A common stock subject to options that are exercisable or are exercisable within 60 days. Also includes 69,284 shares of Class A common stock underlying vested stock fund units in our deferred compensation plan. In connection with any voluntary or involuntary termination of his employment with us, Mr. White may be entitled to receive an issuance of some or all of the shares underlying the stock fund units within 60 days of such termination, depending upon the date of such termination and the current terms of the election he has made under the plan. As a result of the securityholders' agreement, Mr. White shares voting power over 163,684 of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering.
- (12) Includes 68,729 shares of Class A common stock subject to options that are exercisable or are exercisable within 60 days.
- (13) Includes 16,121 shares of Class A common stock underlying vested stock fund units in our deferred compensation plan. In connection with any voluntary or involuntary termination of his employment with us, Mr. Pion may be entitled to receive a distribution of some or all of the shares underlying the stock fund units within 60 days of such termination, depending upon the date of such termination and the current terms of the election he has made under the plan.
- (14) All of the indicated shares are owned by The Koll Holding Company. Mr. Koll is the sole trustee of the Donald M. Koll Separate Property Trust, which wholly owns DKC Holdings, Inc., which itself wholly owns The Koll Holding Company. As a result of the securityholders' agreement, Mr. Koll shares voting power over all of the indicated shares with our other stockholders that own shares of Class B common stock prior to the offering. Mr. Koll's business address is 4343 Von Karman Avenue, Newport Beach, CA 92660.
- (15) The shares beneficially owned consist of 25,355 shares of Class A common stock owned by Stanfield Arbitrage CDO, Ltd., 25,355 shares of Class A common stock owned by Stanfield CLO, Ltd. and 21,733 shares of Class A common stock owned by Stanfield/RMF Transatlantic CDO, Ltd. In connection with the offering, Stanfield Arbitrage CDO, Ltd. will sell 7,160 shares, Stanfield CLO, Ltd. will sell 7,160 shares and Stanfield/RMF Transatlantic CDO, Ltd. will sell 6,138 shares. Stanfield Arbitrage CDO, Ltd., Stanfield CLO, Ltd. and Stanfield/RMF Transatlantic CDO, Ltd. are structured finance vehicles (collectively, the Stanfield Funds) and Stanfield Capital Partners LLC is the collateral manager to each of the Stanfield Funds. Stanfield Capital Partners LLC, in its capacity as collateral manager to such funds, is able to direct the voting and disposition of the indicated shares. As such, it may be deemed to be the beneficial owner of the shares owned by the Stanfield Funds. Stanfield Capital Partners LLC disclaims any such beneficial ownership. The business address for each of the Stanfield Funds is Hemisphere House, 9 Church Street, Third Floor, Harbour Centre, Hamilton, Bermuda HM11, British West Indies. A copy of any correspondence to any of the Stanfield Funds should also be sent to Stanfield Capital Partners LLC, 430 Park Avenue, 12th Floor, New York, NY 10022.
- (16) Provident Financial Group, Inc. owns 100% of a registered broker-dealer. Provident purchased the shares of our common stock beneficially owned by it in the ordinary course of business and, at the times it acquired such shares, had no agreements or understandings, directly or indirectly, with any person to distribute them publicly. The business address of Provident Financial Group, Inc. is 1 East Fourth Street, Cincinnati, OH 45202.

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**DESCRIPTION OF CAPITAL STOCK**

The following description summarizes information regarding our capital stock. This information does not purport to be complete and is subject in all respects to the applicable provisions, of the Delaware General Corporation Law, and our restated certificate of incorporation and restated by-laws, which are included as exhibits to the registration statement of which this prospectus forms a part.

**Common Stock**

*Generally.* Prior to the offering, we have a dual class common stock structure. We currently are authorized to issue an aggregate of 425,000,000 shares of common stock consisting of 325,000,000 shares of Class A common stock, \$0.01 par value per share, and 100,000,000 shares of Class B common stock, \$0.01 par value per share. On May 4, 2004, we completed a 3-for-1 stock split of our outstanding Class A common stock and Class B common stock, which was effected by a stock dividend. On June 7, 2004, we amended our certificate of incorporation to effect a 1-for-1.0825 reverse stock split. Except with respect to voting as described below, the holders of Class A common stock and Class B common stock have the same rights. Pursuant to the automatic conversion provision described below, all outstanding shares of Class B common stock will convert at a 1-for-1 ratio into shares of Class A common stock in connection with the completion of the offering. As a result of this conversion and the automatic cashless exercise of warrants described below, after the completion of the offering, 68,614,001 shares of Class A common stock will be outstanding and no shares of Class B common stock will be outstanding. Immediately after the completion of the offering, we expect to amend and restate our certificate of incorporation to eliminate the authorized shares of Class B common stock. As a result, we do not expect to be able to issue shares of our Class B common stock after completion of the offering.

***Prior to Completion of the Offering***

*Voting Rights.* Each share of Class A common stock entitles the holder to one vote in all matters submitted to a vote of our stockholders. Each share of Class B common stock entitles the holder to ten votes in all matters submitted to a vote of stockholders. There is no cumulative voting. Except as required by applicable law, the holders of Class A common stock and the holders of Class B common stock vote together on all matters submitted to a vote of our stockholders. In the event that any amendment to the certificate of incorporation is proposed that would alter or change the powers, preferences or special rights of either class of our common stock so as to affect them adversely, we must obtain the approval of a majority of the votes entitled to be cast by the holders of the outstanding shares of the class affected by the proposed amendment. In addition, the number of authorized shares of Class A common stock or Class B common stock may be increased or decreased, but not below the number of shares then outstanding, by the affirmative vote of the holders of a majority in voting power of our outstanding shares of capital stock entitled to vote generally in the election of directors.

*Dividends.* Holders of Class A common stock and Class B common stock are entitled to receive ratably any dividends that may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event that a dividend or distribution is paid or distributed with respect to one class of common stock, a simultaneous dividend or distribution must be paid or distributed on the other class and in the same proportion. However, in the case of dividends or other distributions payable in common stock, only shares of Class A common stock would be paid or distributed with respect to Class A common stock and only shares of Class B common stock would be paid or distributed with respect to Class B common stock. We may not subdivide or combine shares of either class of our common stock without at the same time proportionally subdividing or combining shares of the other class.



*Changes in Capitalization.* In the event there is an increase or decrease in the number of issued shares of common stock resulting from any stock split, stock dividend, reverse stock split, combination or reclassification of our common stock, or any other similar event resulting in an increase or decrease in the number of outstanding shares of common stock, the outstanding shares of Class A common stock and the outstanding shares of Class B common stock must be adjusted in the same manner.

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*Optional Conversion.* As long as shares of Class B common stock are outstanding, a holder of Class B common stock may at any time convert any shares of Class A common stock the holder owns, in whole or in part, on a share for share basis into the same number of shares of Class B common stock. A holder of Class B common stock may at any time convert any shares of Class B common stock it owns, in whole or in part, on a share for share basis into the same number of shares of Class A common stock. In the event of a transfer of shares of Class B common stock to any person or entity other than a permitted transferee, each share of Class B common stock so transferred will be converted automatically into one share of Class A common stock. For the purposes of a transfer of capital stock, the permitted transferees include affiliates of Blum Capital Partners, any person or entity that owned Class B common stock at the effective time of our acquisition of CB Richard Ellis Services and any single person or entity to which a current Class B common stock holder transfers its right to be a permitted holder and all of its Class B common stock.

*Automatic Conversion.* Each share of Class B common stock converts automatically into one share of Class A common stock upon completion of the offering.

*Mergers and Other Business Combinations.* Subject to the next sentence, unless otherwise approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of Class A common stock and the outstanding shares of Class B common stock, each voting separately as a class, all shares of Class A common stock and Class B common stock are entitled to receive equally on a per share basis the same kind and amount of consideration in the event of any merger, reorganization or consolidation of us with any company. In the event that one or more of the other corporations or entities that is a party to a merger or similar transaction with us deems it necessary for the merger to be treated as a recapitalization for financial accounting purposes and for us to no longer be subject to the reporting requirements of Section 14 of the Exchange Act after the closing date of the merger, then, solely to the extent deemed necessary by the other corporation or entity to satisfy these requirements, the kind of consideration that a holder of a share of Class A common stock would be entitled to receive may be different than the kind of consideration that a holder of a share of Class B common stock would be entitled to receive.

*Liquidation.* In the event of liquidation, dissolution or winding up, the holders of Class A common stock and Class B common stock are entitled to share ratably in all assets remaining after the payment of liabilities.

### ***After Completion of the Offering***

*Voting Rights.* Holders of our Class A common stock generally will be entitled to one vote per share on all matters on which our stockholders are entitled to vote. The holders of Class A common stock will not have cumulative voting rights in the election of directors.

*Dividends.* Holders of our Class A common stock will be entitled to receive ratably dividends if, as and when declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on any outstanding preferred stock, as described below. Our senior credit facilities and indentures impose restrictions on our ability to declare dividends with respect to our Class A common stock.

*Liquidation Rights.* Upon our dissolution, liquidation or winding up, the holders of our Class A common stock will be entitled to receive ratably the assets available for distribution to our stockholders after payment of liabilities and accrued but unpaid dividends and liquidation preferences on any outstanding preferred stock.

*Other Matters.* Our Class A common stock will not have preemptive or conversion rights and will not be subject to further calls or assessment by us. There will be no redemption or sinking fund provisions applicable to our Class A common stock.

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**Preferred Stock**

In our restated certificate of incorporation that we expect to file prior to completion of the offering, our board of directors will be authorized, subject to any limitations imposed by law, without the approval of our stockholders, to issue from time to time up to a total of 25,000,000 shares of our preferred stock, in one or more series, with each such series having rights and preferences, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as our board of directors may determine. The issuance of our preferred stock, while potentially providing us with flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

**Warrants**

In connection with our acquisition of CB Richard Ellis Services in 2001, we issued to our stockholders affiliated with Freeman Spogli a warrant to acquire, subject to customary anti-dilution provisions, 708,019 shares of our Class B common stock at an exercise price of \$10.825 per share in exchange for the cancellation of previously outstanding warrants to acquire 364,884 shares of CB Richard Ellis Services common stock. These warrants may be exercised at the option of the holders on August 26 and 27, 2007 either by delivery of the exercise price in cash or by a cashless exercise. These warrants are exercised automatically on a cashless basis in connection with specified triggering events, one of which is the completion of an underwritten initial public offering of our common stock that results in our common stock being listed on either the New York Stock Exchange or the Nasdaq National Market. In connection with any cashless exercise, instead of payment of the exercise price in cash, the stockholders affiliated with Freeman Spogli surrender their warrant certificates and receive a net amount of shares of our common stock based on the fair market value of our common stock at the time of the exercise of the warrants, after deducting the aggregate exercise price. Accordingly, in connection with the completion of the offering, these warrants will automatically be exercised and we will issue an aggregate of 304,634 shares to our stockholders affiliated with Freeman Spogli.

**Registration Rights**

Pursuant to a securityholders' agreement, the other terms of which are described under the heading "Related Party Transactions - Securityholders Agreement," we have granted registration rights to our stockholders that are parties to that agreement.

*Demand Registrations.* As a result of these registration rights, after we have completed this offering and upon the expiration or earlier waiver of the lock-up period imposed by the underwriters, we can be required by some of our stockholders to effect additional registration statements, or demand registrations, registering the securities held by the stockholder for sale under the Securities Act of 1933. Under this agreement, our stockholders affiliated with Blum Capital Partners may request six demand registrations and our stockholders affiliated with Freeman Spogli may request three demand registrations. After completion of the offering, these stockholders will beneficially own 36,195,457 shares of our common stock. If a demand registration is underwritten and the managing underwriter advises us that marketing factors require a limitation on the number of shares to be underwritten, priority of inclusion in the demand registration generally is such that the stockholder initiating the demand registration receives first priority.

*Piggyback Registrations.* In addition to our obligations with respect to demand registrations, if we propose to register any of our securities, other than a registration relating to our employee benefit plans or a corporate reorganization or other transaction under Rule 145 of the Securities

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Act, whether or not the registration is for our own account, we are required to give each of our stockholders that is party to the securityholders agreement the opportunity to participate, or piggyback, in the registration. These piggyback registration rights apply in the

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offering because affiliates of Blum Capital Partners are selling shares in the offering. If a piggyback registration is underwritten and the managing underwriter advises us that marketing factors require a limitation on the number of shares to be underwritten, priority of inclusion in the demand registration generally is such that we receive first priority with respect to the shares we are issuing and selling.

*Other Registration Provisions.* The registration rights are subject to conditions and limitations, among them the right of the underwriters of an offering subject to the registration to limit the number of shares included in the offering. We generally are required to pay the registration expenses in connection with both demand and piggyback registrations. A stockholder's registration rights will terminate if we have completed an initial public offering of our common stock, the stockholder holds less than 0.5% of our outstanding common stock and the stockholder is entitled to sell all of its shares in any 90-day period under Rule 144 of the Securities Act. For additional information regarding sales under Rule 144, see the description under the heading titled "Shares Eligible for Future Sale" Sale of Restricted Shares.

**Anti-Dilution Agreement**

In connection with the 2001 issuance and sale of our 16% senior notes due 2011, we issued an aggregate of 941,764 shares of our Class A common stock to the purchasers of the senior notes. On July 20, 2001, we also issued 504,462 shares of our Class A common stock to the affiliate of Credit Suisse First Boston LLC that originally committed to purchase our 16% senior notes. In connection with these issuances we entered into an anti-dilution agreement pursuant to which these stockholders have the right to purchase additional shares of our Class A common stock for \$0.01 per share upon the occurrence of specified events.

These specified events include any issuance of shares of our common stock or options, warrants or other securities convertible into, or exchangeable or exercisable for, shares of our common stock, in each case, at a price that is less than the "current market price" per share of our common stock. The "current market price" per share of any class of our common stock at any date generally is the average of the quoted price of our common stock on a securities exchange for 30 consecutive trading days commencing 45 trading days before the date in question. If our shares are not listed on a securities exchange on the date in question, then the "current market price" would be determined by our board of directors, which determination in some cases must be based upon a valuation by an unaffiliated nationally-recognized investment banking or appraisal firm. With respect to issuances of stock options by us, the "current market price" (1) prior to an initial public offering of our common stock may be determined by our board of directors in good faith and (2) after an initial public offering is determined based upon the quoted price of our common stock on the trading day immediately preceding the date of grant of the option.

The right of these stockholders to purchase additional shares of our Class A common stock pursuant to the anti-dilution agreement is subject to important exceptions, which include issuances of common stock pursuant to bona fide public offerings and issuances of common stock pursuant to certain employee stock purchase programs.

If we consolidate or merge with or into, or transfer or lease all or substantially all of our assets to, any person, and in connection with such transaction the holders receive common stock of another entity or option, warrants or other securities convertible into or exchange for common stock of another entity, then upon consummation of such transaction, the right to purchase additional shares of our common stock under this agreement will automatically become applicable to the common stock of the other entity.

No adjustment in the number of shares held by these stockholders is required to be made unless the adjustment would require an increase or decrease of at least 1% in the number of shares held by these stockholders. Any such adjustments that are not made are carried forward and

taken into account in determining any subsequent adjustments.

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The anti-dilution agreement terminates on July 20, 2011 and, with respect to each of the shares of our Class A common stock subject to such agreement, the agreement also terminates at such time as such share has been transferred pursuant to a registration statement filed with the SEC or pursuant to Rule 144 of the rules and regulations promulgated by the SEC under the Securities Act of 1933.

### **Anti-Takeover Effects of Certain Provisions of Our Restated Certificate of Incorporation and Restated By-Laws**

Certain provisions of our restated certificate of incorporation and restated by-laws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

### ***Advance Notice Requirements for Stockholder Proposals and Director Nominations***

Our restated by-laws provide that stockholders seeking to nominate candidates for election as directors or to bring business before a meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. Generally, to be timely, a stockholder's notice will need to be received at our principal executive offices not less than 90 days nor more than 120 days prior to, in the case of annual meetings, the first anniversary date of the previous year's annual meeting and, in the case of special meetings, the date of such special meeting. Our restated by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

### ***Amendments***

Our restated certificate of incorporation grants our board of directors the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation.

### **Limitations on Liability and Indemnification of Officers and Directors**

Our certificate of incorporation provides that our directors may not be held liable to us or our stockholders for monetary damages for breach of their fiduciary duties as directors, except to the extent the exemption from, or limitation of, liability is not permitted under Delaware law.

Our certificate of incorporation also provides that we must indemnify our directors and officers to the fullest extent authorized by Delaware law. We are also expressly authorized to carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.



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The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

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**Delaware Anti-Takeover Statute**

Pursuant to our certificate of incorporation prior to May 4, 2004, we had opted out of the protections of Section 203 of the Delaware General Corporation Law. In our restated certificate of incorporation that we filed, and that became effective, on May 4, 2004, we opted in to Section 203. Subject to specified exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder.

Business combinations include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, an interested stockholder is a person who together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These restrictions generally prohibit or delay the accomplishment of mergers or other takeover or change-in control attempts. However, in connection with our opt in, our stockholders that currently own 15% or more of our outstanding voting stock, including affiliates of Blum Capital Partners, L.P. and affiliates of Freeman Spogli & Co. Incorporated, are not considered interested stockholders under Section 203.

**Transfer Agent**

The transfer agent for our Class A common stock is The Bank of New York located at 101 Barclay Street, New York, New York, 10286 and its telephone number is (212) 815-3776.

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**SHARES ELIGIBLE FOR FUTURE SALE**

Prior to this offering, there was no market for our common stock. We can make no predictions as to the effect, if any, that sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of significant amounts of our common stock in the public market, or the perception that those sales may occur, could adversely affect prevailing market prices and impair our future ability to raise capital through the sale of our equity at a time and price we deem appropriate.

**Sale of Restricted Shares and Shares Held by Affiliates**

Upon completion of the offering, we will have 68,614,001 shares of common stock outstanding, based upon the total number of outstanding shares of our Class A common stock and Class B common stock as of May 31, 2004. In addition, as of May 31, 2004, 10,016,974 shares of common stock were issuable upon the exercise of outstanding stock options or in connection with distributions pursuant to our deferred compensation plan. Of the outstanding shares after completion of the offering, all of the 24,000,000 shares sold in the offering and 1,110,407 of our other currently outstanding shares held by our current and former employees and consultants immediately will be freely tradable without further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations under Rule 144 as described below. The remaining outstanding shares of our common stock after completion of the offering will be deemed restricted securities, as that term is defined under Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 under the Securities Act, which rules are described below. Although the shares held by our current and former employees and consultants currently are subject to transfer restriction agreements with us, we expect to waive some or all of these contractual restrictions prior to the completion of the offering and, in the event of such waivers, such stockholders will be able to sell their shares after the offering, in each case subject to any lock-up agreements with the underwriters described below and subject to such shares being registered under the Securities Act or otherwise being sold pursuant to Rules 144, 144(k) or 701 under the Securities Act.

The restricted shares and the shares held by our affiliates will be available for sale in the public market as follows:

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

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

42,234,027 shares subject to the lock-up agreements will be eligible for sale at various time beginning 180 days after the date of this prospectus pursuant to Rules 144, 144(k) and 701.

***Rule 144***

In general, under Rule 144 as currently in effect, any person (or persons whose shares must be aggregated), including an affiliate of ours, who has beneficially owned restricted shares of our common stock for at least one year is entitled to sell in any three-month period a number of

shares that does not exceed the greater of the following:

1% of the then-outstanding shares of common stock, which will be approximately 0.7 million shares immediately after completion of the offering; and

the average weekly reported volume of trading of our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of the sale is filed pursuant to Rule 144, subject to restrictions.

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Sales under Rule 144 also must be sold only through brokers' transactions or in transactions directly with a market maker, as those terms are defined in Rule 144. In addition, sales under Rule 144 are subject to notice requirements and the availability of current public information concerning us for at least 90 days after completion of the offering.

***Rule 144(k)***

A person (or persons whose shares must be aggregated) who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell those shares under Rule 144(k) without regard to the volume, manner of sale, notice or public information requirements of Rule 144 described above.

***Rule 701***

Certain of our current and former employees and consultants who acquired their shares in connection with awards pursuant to our 2001 stock incentive plan, which is a written compensatory plan, are entitled to rely on the resale provisions of Rule 701 under the Securities Act. Under Rule 701, these stockholders, whether or not they are our affiliates, are permitted to sell the shares subject to Rule 701 without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the date of this prospectus. In addition, non-affiliates may sell their Rule 701 shares without complying with the volume, notice or public information requirements of Rule 144 described above.

**Registrations on Form S-8**

We intend to file registration statements on Form S-8 under the Securities Act of 1933 to register shares of common stock issuable under our 2001 stock incentive plan, our deferred compensation plan and our 2004 stock incentive plan. These registration statements are expected to be filed shortly after the date of this prospectus and will be effective upon filing. As a result, after the effective date of these Form S-8 registration statements, shares issued pursuant to our 2001 stock incentive plan and our 2004 stock incentive plan, including upon the exercise of stock options, and shares issued pursuant to our deferred compensation plan will be eligible for resale in the public market without restriction, subject to Rule 144 limitations applicable to affiliates described above and the lock-up agreements described below.

As of May 31, 2004:

6,887,698 shares of common stock were reserved pursuant to our 2001 stock incentive plan for future issuance in connection with the exercise of outstanding options previously awarded under this plan, and options with respect to 1,620,540 of shares had vested;

6,928,406 shares of common stock were reserved for future issuance pursuant to our 2004 stock incentive plan, none of which have been awarded under this plan; and

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3,129,279 shares of common stock were underlying stock fund units under our deferred compensation plan and are issuable in connection with future distributions under the plan pursuant to the elections made by plan participants, with 1,948,133 shares underlying stock fund units that are no longer subject to any vesting requirements under the plan.

With respect to the foregoing as of May 31, 2004, the parties who have signed lock-up agreements with the underwriters held options to acquire 1,770,719 shares of our common stock, of which 386,811 had vested, and stock fund units with 97,876 underlying shares, of which 85,405 had vested.

In addition to the vested options as of May 31, 2004, additional options to purchase approximately 1.3 million shares of common stock will vest on or prior to September 16, 2004.

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As permitted by its terms, we expect to terminate our deferred compensation plan shortly after the offering is completed and adopt a new deferred compensation plan. With respect to existing deferrals in stock fund units under the plan, we expect that substantially all of the shares of common stock underlying such units will be distributed to participants in distributions initiated by us during October of 2004.

**Lock-Up Agreements**

For a description of the lock-up agreements with the underwriters that restrict sales of shares by us, our directors and executive officers and certain of our other employees and stockholders, see the information under the heading Underwriting.

**Registration Rights**

For a description of registration rights with respect to our common stock, see the information under the heading titled Description of Capital Stock Registration Rights.

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**DESCRIPTION OF CERTAIN LONG-TERM INDEBTEDNESS**

**CB Richard Ellis Services Senior Secured Credit Facilities**

In connection with our acquisition of CB Richard Ellis Services in 2001, CB Richard Ellis Services entered into a credit agreement with a syndicate of lenders for which Credit Suisse First Boston, or CSFB, serves as the administrative agent and collateral agent. The credit agreement was amended as of the closing of the offering of our 9¾% senior notes on May 22, 2003 to permit the issuance of the 9¾% senior notes and was amended and restated upon the consummation of the Insignia acquisition on July 23, 2003. On October 14, 2003, CB Richard Ellis Services amended and restated the credit agreement a second time. On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to \$30.0 million of our existing indebtedness and provides for the amendment and restatement of our credit agreement upon the completion of the offering. CB Richard Ellis Services senior secured credit facilities, as set forth in our new amended and restated credit agreement, will consist of a \$295.0 million term loan facility and a \$90.0 million revolving credit facility. We expect that the new amended and restated credit agreement also will include an incremental revolving facility of \$60.0 million. Our new amended and restated credit agreement also will permit us to increase the term facility by up to \$25.0 million, subject to the satisfaction of customary conditions.

The senior secured credit facilities are jointly and severally guaranteed by us and substantially all of CB Richard Ellis Services domestic subsidiaries, including future domestic subsidiaries. The senior secured credit facilities are secured by a pledge of all of the equity interests of CB Richard Ellis Services and its significant domestic subsidiaries, including CB Richard Ellis, Inc., CBRE Investors, L.L.C., L.J. Melody & Company, Insignia Financial Group, Inc. and Insignia/ESG, Inc., which was renamed CB Richard Ellis Real Estate Services, Inc., and 65% of the voting stock of its foreign subsidiaries that are held directly by it or its domestic subsidiaries. Additionally, these lenders generally have a lien on substantially all of our accounts receivable, cash, general intangibles, investment property and future acquired property.

Pursuant to our new amended and restated credit agreement, the term loan facility will mature on March 31, 2010 and will amortize in equal quarterly installments of \$2.95 million through December 31, 2009, with the balance payable on the maturity date. The \$90.0 million revolving credit facility will terminate on July 20, 2007. However, in connection with the \$60.0 million incremental revolving credit facility that we expect to implement (which we expect would terminate on March 31, 2009), we have requested that the lenders under the \$90.0 million revolving credit facility agree to extend its termination date to March 31, 2010. In the event of an increase in the term loan facility, the increased amount of such facility will mature at the same time or later as the remainder of the facility, depending upon the agreement we reach with the lenders for such increased facility.

Pursuant to our new amended and restated credit agreement, borrowings under the senior secured credit facilities will bear interest at the following rates:

Term loan facility at CB Richard Ellis Services option, either LIBOR plus 2.25% to 2.50% or the alternate base rate, as defined below, plus 1.25% to 1.50%, in each case as determined by reference to the credit rating assigned to such facility by Moody's Investors Service and Standard and Poor's;

\$90.0 million revolving credit facility at CB Richard Ellis Services option, either LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in each case as determined by reference to our ratio of total debt less available cash to EBITDA, as such terms are defined in the credit agreement;



Up to \$25.0 million incremental term loan facility depending upon the agreement we reach with the lenders for any such facility, either the rate for the term loan facility described above or a higher or lower rate; and

\$60.0 million incremental revolving credit facility at CB Richard Ellis Services option, either LIBOR plus 2.00% to 2.50% or the alternative base rate plus 1.00% to 1.50%, in each case as determined by references to our ratio of total debt less available cash to EBITDA.

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We are required to pay to the lenders under the senior secured credit facilities a commitment fee on the unused portion of the revolving credit facility, including the \$60.0 million incremental facility, and a letter of credit fee on each letter of credit outstanding. We are also required to apply certain proceeds of sales of assets, issuances of equity, incurrences of debt and excess cash flow to the prepayment of the term loan.

The amended and restated credit agreement for the senior secured credit facilities contains customary restrictive covenants, including, among others, limitations on the ability of us and our subsidiaries to pay dividends on, redeem and repurchase capital stock; prepay, redeem and repurchase debt; incur liens; enter into sale/leaseback transactions; make loans and investments; incur indebtedness; enter into mergers, acquisitions and asset sales; enter into transactions with affiliates; change lines of business; and make capital expenditures. The new amended and restated credit agreement, among other things, generally will amend the restrictive covenant regarding prepayment, redemption and repurchase of debt to permit us to use the net proceeds we receive from the offering in the manner described in this prospectus, including the redemption of \$38.3 million in aggregate principal amount of our 16% senior notes due 2011 and \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010 and the prepayment of \$16.9 million in principal amount of our term loan.

In addition, the amended and restated credit agreement contains covenants that require us to maintain specified financial ratios, which include the following ratios: total debt less available cash to EBITDA; total senior secured debt less available cash to EBITDA; EBITDA to interest expense plus expense associated with dividends paid to us to pay amounts due under the 16% senior notes due 2011; and EBITDA less capital expenditures and co-investments to interest expense plus expense associated with dividends paid to us to pay amounts due under the 16% senior notes due 2011.

The amended and restated credit agreement also includes customary events of default, including nonpayment of principal, interest, fees or reimbursement obligations with respect to letters of credit, violation of covenants, inaccuracy of representations and warranties in any material respect, cross default and cross-acceleration to certain other indebtedness and agreements, bankruptcy and insolvency events, material judgments and liabilities, defaults or judgments under ERISA and change of control. The occurrence of any of the events of default could result in acceleration of our obligations under the amended and restated credit agreement and foreclosure on the collateral securing the obligations.

This summary of the material provisions of the amended and restated credit agreement is qualified in its entirety by reference to all of the provisions of the amended and restated credit agreement, which is filed as an exhibit to the registration statement of which this prospectus is a part.

### **CB Richard Ellis Services 9¾% Senior Notes Due 2010**

On May 22, 2003, CBRE Escrow, Inc. issued \$200.0 million in aggregate principal amount of 9¾% senior notes due 2010 for \$200.0 million. In connection with our acquisition of Insignia on July 23, 2003, CBRE Escrow merged into CB Richard Ellis Services, Inc., which assumed the 9¾% senior notes, and we and substantially all of our domestic subsidiaries guaranteed the 9¾% senior notes. CB Richard Ellis Services 9¾% senior notes are its unsecured senior obligations and rank equally in right of payment with any of our existing and future senior unsecured indebtedness but are effectively subordinated to all of our secured debt to the extent of the value of the assets securing such debt. They are also structurally subordinated to all of the existing and future liabilities of CB Richard Ellis Services subsidiaries that do not guarantee the notes. The 9¾% senior notes are governed by an indenture among CB Richard Ellis Services, us, the other guarantors and U.S. Bank National Association, as trustee.

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Interest accrues at a rate of 9¾% per year and is payable semiannually in arrears. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. There are no mandatory sinking fund payments for our 9¾% senior notes. We may at any time, and from time to time, purchase our 9¾% senior notes in the open

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market or otherwise. We and certain of our subsidiaries guaranteed our 9¾% senior notes on a senior unsecured basis. These guarantees by the guarantors of the notes are *pari passu* to all of such guarantors' existing and future indebtedness.

Until May 15, 2006, our 9¾% senior notes may be redeemed on one or more occasions in an amount not to exceed 35% of the principal amount of all issued 9¾% senior notes at a redemption price of 109¾%, plus accrued and unpaid interest to the redemption date, with cash proceeds raised in certain public equity offerings, as long as:

at least 65% of the aggregate principal amount of our 9¾% senior notes, including any additional 9¾% senior notes, remains outstanding after each redemption;

if the money is raised in an equity offering by us, we contribute to CB Richard Ellis Services an amount sufficient to redeem the 9¾% senior notes; and

the 9¾% senior notes are redeemed within 90 days after the completion of the related equity offering.

Pursuant to this provision of the indenture, we expect to use a portion of the net proceeds we receive from the offering to redeem \$70.0 million in aggregate principal amount of our 9¾% senior notes due 2010, which also will require payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption.

On and after May 15, 2007, all or a portion of our 9¾% senior notes will be redeemable at our option upon not less than 30 nor more than 60 days notice. The notes are redeemable at the redemption prices, expressed as a percentage of the principal amount on the redemption date, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing May 15 of the years below:

<u>Year</u>	<u>Percentage</u>
2007	104.875%
2008	102.438
2009 and thereafter	100.000

In the event of a change of control, which is defined in the indenture governing the 9¾% senior notes, we will be obligated to make an offer to purchase all outstanding 9¾% senior notes at a redemption price of 101% of the principal amount plus accrued interest, subject to certain conditions.

The indenture governing our 9¾% senior notes contains customary restrictive covenants for high yield securities, including, among others, limitations on our ability and the ability of our subsidiaries to incur or guarantee additional indebtedness; pay dividends or distributions on capital stock or redeem or repurchase capital stock; make investments; create restrictions on the payment of dividends or other amounts to us; sell stock of our subsidiaries; transfer or sell assets; enter into transactions with affiliates; and enter into mergers and consolidations.

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This summary of the material provisions of our 9¾% senior notes is qualified in its entirety by reference to all of the provisions of the indenture governing our 9¾% senior notes, which is filed as an exhibit to the registration statement of which this prospectus is a part.

### **CB Richard Ellis Services 11¼% Senior Subordinated Notes Due 2011**

On June 7, 2001, Blum CB Corp. issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due 2011 for \$225.6 million. In connection with our acquisition of CB Richard Ellis Services in 2001, CB Richard Ellis Services assumed the 11¼% senior subordinated notes and we and substantially all of our domestic subsidiaries guaranteed the 11¼% senior subordinated notes. CB Richard Ellis Services 11¼% senior subordinated notes are our unsecured senior subordinated obligations and rank equally in right of payment

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with any of our existing and future senior subordinated unsecured indebtedness but are subordinated to any of our existing and future senior indebtedness. The 11¼% senior subordinated notes are governed by an indenture among CB Richard Ellis Services, us, the other guarantors and U.S. Bank National Association (as successor to State Street Bank and Trust Company of California, N.A.), as trustee.

Interest accrues at a rate of 11¼% per year and is payable semiannually in arrears. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. There are no mandatory sinking fund payments for our 11¼% senior subordinated notes. We may at any time and from time to time purchase our 11¼% senior subordinated notes in the open market or otherwise. We and substantially all of our domestic subsidiaries guaranteed the 11¼% senior subordinated notes on a senior subordinated basis. These guarantees are subordinated to all of such guarantors' existing and future senior indebtedness, including guarantees by them of the senior secured credit facilities.

Until June 15, 2004, our 11¼% senior subordinated notes may be redeemed on one or more occasions in an amount not to exceed 35% of the principal amount of all issued 11¼% senior subordinated notes at a redemption price of 111¼%, plus accrued and unpaid interest to the redemption date, with cash proceeds raised in certain public equity offerings, as long as:

at least 65% of the aggregate principal amount of the 11¼% senior subordinated notes, including any additional 11¼% senior subordinated notes, remains outstanding after each redemption;

if the money is raised in an equity offering by us, we contribute to CB Richard Ellis Services an amount sufficient to redeem the 11¼% senior subordinated notes; and

the 11¼% senior subordinated notes are redeemed within 90 days after the completion of the related equity offering.

On and after June 15, 2006, all or a portion of our 11¼% senior subordinated notes will be redeemable at our option upon not less than 30 nor more than 60 days notice. The notes are redeemable at the redemption prices, expressed as a percentage of the principal amount on the redemption date, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing June 15 of the years below:

<u>Year</u>	<u>Percentage</u>
2006	105.625%
2007	103.750
2008	101.875
2009 and thereafter	100.000

In the event of a change of control, which is defined in the indenture governing the 11¼% senior subordinated notes, we will be obligated to make an offer to purchase all outstanding 11¼% senior subordinated notes at a redemption price of 101% of the principal amount plus accrued interest.

The indenture governing our 11¼% senior subordinated notes contains customary restrictive covenants for high yield securities, which covenants are substantially the same as the covenants in the indenture governing our 9¾% senior notes.

In May and June 2004, we purchased \$21.6 million in aggregate principal amount of our 11 1/4% senior subordinated notes in the open market. We paid an aggregate of \$3.1 million of premiums in connection with such purchases.

This summary of the material provisions of our 11 1/4% senior subordinated notes is qualified in its entirety by reference to all of the provisions of the indenture governing our 11 1/4% senior subordinated notes, which is filed as an exhibit to the registration statement of which this prospectus is a part.

**Table of Contents****Index to Financial Statements****CB Richard Ellis Group's 16% Senior Notes Due 2011**

In connection with our acquisition of CB Richard Ellis Services in 2001, we issued an aggregate of 65,000 units, which consisted in the aggregate of \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011 and 941,764 shares of our Class A common stock. The 16% senior notes are unsecured obligations, senior to all of our existing and future unsecured indebtedness but effectively subordinated to all of our existing and future indebtedness. The net proceeds from the units were contributed by us to CB Richard Ellis Services as equity. The 16% senior notes are governed by an indenture between us and U.S. Bank National Association (as successor to State Street Bank and Trust Company of California, N.A.), as trustee, and will mature on July 20, 2011. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of the 16% senior notes. We paid \$2.9 million of premiums in connection with these redemptions. We expect to use the net proceeds that we receive from the offering to redeem all of the remaining outstanding principal amount of the 16% senior notes, which also will require payment of a \$3.7 million premium and accrued and unpaid interest through the date of redemption.

Interest accrues on the 16% senior notes at a rate of 16% per year and is payable quarterly in cash in arrears. However, until the fifth anniversary of the issuance of the 16% senior notes, interest in excess of 12% for the 16% senior notes may be paid in kind and, at any time, interest may be paid in kind to the extent that CB Richard Ellis Services' ability to pay cash dividends to us is restricted by the terms of the senior secured credit facilities, which are described above. There are no mandatory sinking fund payments for the 16% senior notes.

The 16% senior notes are redeemable at our option, in whole at any time or in part from time to time upon not less than 30 nor more than 60 days notice. The notes are redeemable at the redemption prices, expressed as a percentage of the principal amount, set forth in the table below, plus accrued and unpaid interest, if redeemed during the twelve-month period commencing July 20 of the years below:

<u>Year</u>	<u>Percentage</u>
2003	109.6%
2004	106.4
2005	103.2
2006 and thereafter	100.0

In the event of a change of control, which is defined in the indenture governing the 16% senior notes, we are obligated to make an offer to purchase all outstanding 16% senior notes at a purchase price equal to 101% of the principal amount of the 16% senior notes, plus accrued and unpaid interest, subject to various conditions.

The indenture governing our 16% senior notes contains customary restrictive covenants for high yield securities, which covenants are substantially the same as the covenants in the indenture governing our 9¾% senior notes.

This summary of the material provisions of our 16% senior notes is qualified in its entirety by reference to all of the provisions of the indenture governing the 16% senior notes, which is filed as an exhibit to the registration statement of which this prospectus forms a part.





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**CERTAIN U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following summary describes certain U.S. federal income and estate tax consequences of the ownership of our Class A common stock by a non-U.S. holder, as defined below, as of the date of this prospectus. This discussion does not address all aspects of U.S. federal income and estate taxes and does not deal with foreign, state and local consequences that may be relevant to non-U.S. holders in light of their personal circumstances. Special rules may apply to certain non-U.S. holders, such as U.S. expatriates, controlled foreign corporations, passive foreign investment companies, foreign personal holding companies, corporations that accumulate earnings to avoid U.S. federal income tax, and investors in pass-through entities that are subject to special treatment under the Internal Revenue Code of 1986, which we refer to as the Code. These non-U.S. holders should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and U.S. Treasury regulations, rulings and judicial decisions under the Code as of the date of this prospectus, and these authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in U.S. federal income and estate tax consequences different from those discussed below. **Persons considering the ownership of our Class A common stock should consult their own tax advisors concerning the U.S. federal income and estate tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

If a partnership holds our Class A common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Persons who are partners of partnerships holding our Class A common stock should consult their tax advisors.

As used in this section of the prospectus, a non-U.S. holder of our Class A common stock means a beneficial owner, other than an entity treated as a partnership, that is not any of the following for U.S. federal income tax purposes:

an individual citizen or resident of the United States,

a corporation, or entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any of its states or the District of Columbia,

an estate the income of which is subject to U.S. federal income taxation regardless of its source or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

**Dividends**

Dividends paid to a non-U.S. holder of our Class A common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States and, where a tax treaty applies, are attributable to a U.S. permanent establishment of the non-U.S. holder, are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to U.S. federal income tax on a net income basis in the same manner as if the non-U.S. holder were a U.S. person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may

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be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our Class A common stock who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends, will be required to (a) complete Internal Revenue Service Form W-8BEN or other applicable form and certify under penalty of perjury that such holder is not a U.S. person or (b) if the Class A common stock is held through certain foreign intermediaries, satisfy the

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relevant certification requirements of applicable U.S. Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are entities rather than individuals.

A non-U.S. holder of our Class A common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

**Gain on Disposition of Our Class A Common Stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our Class A common stock unless one of the following applies:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States, and, where a tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. holder,

in the case of a non-U.S. holder who is an individual and holds the Class A common stock as a capital asset, such holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not, and do not anticipate becoming, a United States real property holding corporation for U.S. federal income tax purposes.

**Federal Estate Tax**

Class A common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

**Information Reporting and Backup Withholding**

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder, and the payor does not have actual knowledge or reason to know that such holder is a U.S. person, or such holder otherwise establishes an exemption.

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Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our Class A common stock within the United States or conducted through U.S.-related financial intermediaries unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder, and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person, or such owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

**Table of Contents****Index to Financial Statements****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated June 9, 2004, we and the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC and Citigroup Global Markets Inc. are acting as representatives, the following respective numbers of shares of common stock:

<u>Underwriter</u>	<u>Number of Shares</u>
Credit Suisse First Boston LLC	6,840,000
Citigroup Global Markets Inc.	6,840,000
J.P. Morgan Securities Inc.	2,640,000
Lehman Brothers Inc.	2,640,000
Bear, Stearns & Co. Inc.	1,680,000
Goldman, Sachs & Co.	1,680,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,680,000
<b>Total</b>	<b>24,000,000</b>

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 3,600,000 additional outstanding shares from them at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$0.684 per share. The underwriters and selling group members may allow a discount of \$0.10 per share on sales to other broker/dealers. After the initial public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

<u>Per Share</u>		<u>Total</u>	
Without	With	Without	With

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	<u>Over-allotment</u>	<u>Over-allotment</u>	<u>Over-allotment</u>	<u>Over-allotment</u>
Underwriting discounts and commissions paid by us	\$ 1.14	\$ 1.14	\$ 8,808,511	\$ 8,808,511
Expenses payable by us	\$ 0.30	\$ 0.30	\$ 2,300,000	\$ 2,300,000
Underwriting discounts and commissions paid by the selling stockholders	\$ 1.14	\$ 1.14	\$ 18,551,489	\$ 22,655,489

Because Credit Suisse First Boston LLC is an underwriter and its affiliates may receive more than 10% of the entire net proceeds in this offering, they may be deemed to have a conflict of interest under Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 2720 of the Conduct Rules. Rule 2720 requires that the initial public offering price can be no higher than that recommended by a qualified independent underwriter, as defined by the National Association of Securities Dealers, Inc. Citigroup Global Markets Inc. has served in that capacity and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part.



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We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, relating to any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC for a period of 180 days after the date of this prospectus, subject to specified exemptions.

Our directors, executive officers and certain of our other employees and stockholders, which together will beneficially own approximately 63.4% of our outstanding Class A common stock and Class B common stock immediately after the offering, have agreed, subject to certain exceptions, that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC for a period of 180 days after the date of this prospectus.

Our shares of common stock have been authorized for listing on the New York Stock Exchange under the symbol CBG. In order to meet one of the requirements for the listing of the common stock on the NYSE, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial owners.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and our affiliates in the ordinary course of business, for which they received, or will receive, customary fees and expenses. In particular, Credit Suisse First Boston, an affiliate of Credit Suisse First Boston LLC, serves as the administrative agent and collateral agent for, and is a lender under, our senior secured credit facilities. See the information under the heading titled Description of Certain Long-Term Indebtedness for additional information regarding the terms of this indebtedness. Affiliates of Credit Suisse First Boston LLC also are the lenders with respect to 3.71% of the terms loan under our amended and restated credit agreement. We expect to use a portion of the net proceeds we receive from the offering to prepay \$16.9 million in principal amount of the term loan. In addition, as of May 31, 2004, affiliates of Credit Suisse First Boston LLC were the beneficial owners of 1,990,790 shares, or approximately 3.3%, of our outstanding common stock. These affiliates of Credit Suisse First Boston LLC are selling a portion of their shares in the offering and will beneficially own approximately 2.1% of our common stock after the offering. See the information under the heading titled Principal and Selling Stockholders for additional information regarding their beneficial ownership. As of May 31, 2004, these affiliates of Credit Suisse First Boston LLC also owned approximately \$34.8 million in aggregate principal amount of our 16% senior notes due 2011, all of which we expect to redeem with the net proceeds we receive from the offering.

Bear, Stearns & Co. Inc. acted as financial advisor to the special committee of Insignia's board of directors in connection with our acquisition of Insignia in July 2003 and received customary fees and expenses from Insignia in such capacity.

L.J. Melody & Company, our wholly owned subsidiary, has a credit agreement with JP Morgan Chase, an affiliate of J.P. Morgan Securities Inc., that provides for a revolving line of credit of up to \$20.0 million and expires on May 28, 2004.

Prior to the offering, there has been no market for our common stock. The initial public offering price was determined by negotiation among us, the selling stockholders and the underwriters and will not necessarily

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reflect the market price of the common stock following the offering. The principal factors that were considered in determining the public offering price included:

the information presented in this prospectus and otherwise available to the underwriters;

the history of and the prospects for the industry in which we will compete;

the ability of our management;

the prospects for our future earnings;

the present state of our development and our current financial condition;

the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and

the general condition of the securities markets at the time of the offering.

We offer no assurances that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to this offering or that an active trading market for the common stock will develop and continue after the offering.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open

market after pricing that could adversely affect investors who purchase shares in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

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A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in the offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically by e-mail. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

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**LEGAL MATTERS**

The validity of the shares of common stock being offered by us and the selling stockholders in the offering will be passed upon for us by Simpson Thacher & Bartlett LLP, Palo Alto, California. Selected legal matters in connection with the offering will be passed upon for the underwriters by Cravath, Swaine & Moore LLP, New York, New York.

**EXPERTS**

The consolidated financial statements and the related financial statement schedules of CB Richard Ellis Group, Inc. as of and for the years ended December 31, 2003 and 2002 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion and includes explanatory paragraphs referring to the adoption of Statement of Financial Accounting Standards No. 142 effective January 1, 2002 and concerning the application of procedures relating to certain disclosures and revisions of financial statement amounts related to the 2001 financial statements that were audited by other auditors who have ceased operations and for which Deloitte & Touche LLP expressed no opinion or other form of assurance other than with respect to such disclosures and revisions), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of CB Richard Ellis Group, Inc. for the period from February 20 (inception) to December 31, 2001 and the financial statements of CB Richard Ellis Services, Inc. for the period from January 1, 2001 through July 20, 2001 included in this prospectus were audited by Arthur Andersen LLP, independent public accountants. See the information under the heading titled Risk Factors Risks Relating to the Offering and Ownership of Our Common Stock Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited.

The consolidated financial statements of Insignia Financial Group, Inc. as of and for the year ended December 31, 2002 have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, which report refers to changes in accounting principles relating to the adoption of the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 and the adoption of the accounting principles set forth in Statements of Financial Accounting Standards Nos. 141 and 142 effective January 1, 2002, and upon the authority of said firm as experts in accounting and auditing.

The consolidated statements of operations, stockholders' equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001 appearing in this prospectus and the registration statement to which it forms a part have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein and is included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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**CHANGE IN ACCOUNTANTS**

On April 23, 2002, we dismissed our independent auditors, Arthur Andersen LLP, and engaged the services of Deloitte & Touche LLP as our new independent auditors for the fiscal year ended December 31, 2002. Our board of directors and our audit committee authorized the dismissal of Arthur Andersen LLP and the engagement of Deloitte & Touche LLP.

Arthur Andersen LLP's reports on CB Richard Ellis Group's consolidated financial statements for the fiscal years ended December 31, 2001 and 2000 and for the period from CB Richard Ellis Group's inception through the date of Arthur Andersen LLP's dismissal did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the period from CB Richard Ellis Group's inception through the date of Arthur Andersen's dismissal, there were no (1) disagreements with Arthur Andersen LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to Arthur Andersen LLP's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its report on CB Richard Ellis Group's consolidated financial statements or (2) reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On April 8, 2002, Ernst & Young was dismissed as Insignia's principal independent accountant and, effective April 11, 2002, KPMG was retained as its principal independent accountant. The reports of Ernst & Young on Insignia's financial statements for the years ended December 31, 2001 and December 31, 2000 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change accountants was recommended by Insignia's audit committee and approved by Insignia's board of directors.

During the years ended December 31, 2001 and December 31, 2000 and through April 8, 2002, there were no disagreements with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young, would have caused it to make reference thereto in its reports on the financial statements for such periods.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, which includes amendments and exhibits, under the Securities Act of 1933 and the rules and regulations under the Securities Act, for the registration of the common stock being offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the SEC. For further information with respect to us and the common stock offered by this prospectus, please refer to the registration statement.

We currently file reports and other information with the SEC as a result of requirements under the indentures governing our 9¾% senior notes due 2010, our 11¼% senior subordinated notes due 2011 and our 16% senior notes due 2011. The registration statements and other reports or information can be inspected, and copies may be obtained, at the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C.

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20549, at prescribed rates. Information on the operation of the Public Reference Room of the SEC may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information that we have filed electronically with the SEC.



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	<b>March 31, 2004</b>	<b>December 31, 2003</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 54,254	\$ 163,881
Restricted cash	15,165	14,899
Receivables, less allowance for doubtful accounts of \$16,408 and \$16,181 at March 31, 2004 and December 31, 2003, respectively	272,574	322,416
Warehouse receivable	72,725	230,790
Prepaid expenses	28,899	22,854
Deferred tax assets, net	65,438	57,681
Other current assets	33,705	26,461
	<u>          </u>	<u>          </u>
Total Current Assets	542,760	838,982
Property and equipment, net	117,340	113,569
Goodwill	825,679	819,558
Other intangible assets, net of accumulated amortization of \$82,362 and \$73,449 at March 31, 2004 and December 31, 2003, respectively	123,694	131,731
Deferred compensation assets	81,111	76,389
Investments in and advances to unconsolidated subsidiaries	73,354	68,361
Deferred tax assets, net	30,216	32,179
Other assets, net	125,581	132,712
	<u>          </u>	<u>          </u>
Total Assets	\$ 1,919,735	\$ 2,213,481
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 188,725	\$ 189,787
Compensation and employee benefits payable	143,997	148,874
Accrued bonus and profit sharing	83,161	200,343
Short-term borrowings:		
Warehouse line of credit	72,725	230,790
Revolver and swingline credit facility	13,250	
Other	27,846	39,347
	<u>          </u>	<u>          </u>
Total short-term borrowings	113,821	270,137
Current maturities of long-term debt	11,252	11,285
Other current liabilities	12,642	12,991
	<u>          </u>	<u>          </u>
Total Current Liabilities	553,598	833,417
Long-Term Debt:		
11¼% senior subordinated notes, net of unamortized discount of \$2,764 and \$2,827 at March 31, 2004 and December 31, 2003, respectively	226,236	226,173
Senior secured term loan	285,000	287,500

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9¾% senior notes	200,000	200,000
16% senior notes, net of unamortized discount of \$2,560 and \$2,844 at March 31, 2004 and December 31, 2003, respectively	35,756	35,472
Other long-term debt	43,500	42,275
	<u>          </u>	<u>          </u>
Total Long-Term Debt	790,492	791,420
Deferred compensation liability	144,996	138,037
Pension liability	38,917	35,998
Other liabilities	72,712	75,024
	<u>          </u>	<u>          </u>
Total Liabilities	1,600,715	1,873,896
Minority interest	6,860	6,656
Commitments and contingencies		
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 7,578,976 and 7,561,499 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively	76	76
Class B common stock; \$0.01 par value; 100,000,000 shares authorized; 53,409,556 shares issued and outstanding at March 31, 2004 and December 31, 2003	534	534
Additional paid-in capital	361,636	361,522
Notes receivable from sale of stock	(4,388)	(4,680)
Accumulated (deficit) earnings	(15,119)	1,449
Accumulated other comprehensive loss	(28,267)	(23,780)
Treasury stock at cost, 405,888 and 385,103 shares at March 31, 2004 and December 31, 2003, respectively	(2,312)	(2,192)
	<u>          </u>	<u>          </u>
Total Stockholders' Equity	312,160	332,929
	<u>          </u>	<u>          </u>
Total Liabilities and Stockholders' Equity	\$ 1,919,735	\$ 2,213,481
	<u>          </u>	<u>          </u>

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

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## CB RICHARD ELLIS GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended March 31,	
	2004	2003
Revenue	\$ 440,992	\$ 263,724
Costs and expenses:		
Cost of services	224,222	123,599
Operating, administrative and other	199,251	126,175
Depreciation and amortization	16,831	6,171
Merger-related charges	9,960	
Operating (loss) income	(9,272)	7,779
Equity income from unconsolidated subsidiaries	2,526	3,063
Interest income	2,307	1,075
Interest expense	20,679	14,324
Loss before benefit for income taxes	(25,118)	(2,407)
Benefit for income taxes	(8,550)	(1,060)
Net loss	\$ (16,568)	\$ (1,347)
Basic and diluted loss per share	\$ (0.26)	\$ (0.03)
Weighted average shares outstanding for basic and diluted loss per share	62,522,176	41,651,415

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

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## CB RICHARD ELLIS GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (16,568)	\$ (1,347)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	16,831	6,171
Amortization of deferred financing costs	1,662	824
Deferred compensation deferrals	4,863	2,111
Gain on sale of servicing rights and other assets	(518)	(809)
Equity income from unconsolidated subsidiaries	(2,526)	(3,063)
Provision for doubtful accounts	929	152
Deferred income tax benefit	(8,508)	(772)
Decrease in receivables	46,988	21,169
(Increase) decrease in deferred compensation assets	(4,722)	246
Decrease (increase) in prepaid expenses and other assets	28	(2,365)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(120,613)	(77,994)
(Decrease) increase in accounts payable and accrued expenses	(2,721)	1,112
Decrease in income taxes payable	(4,414)	(15,728)
Increase (decrease) in other liabilities	502	(742)
Other operating activities, net	1,420	274
Net cash used in operating activities	(87,367)	(70,761)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net of concessions received	(10,406)	(4,000)
Acquisition of businesses including net assets acquired, intangibles and goodwill	(7,069)	(22)
Other investing activities, net	(1,623)	1,528
Net cash used in investing activities	(19,098)	(2,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolver and swingline credit facility	47,500	33,750
Repayment of revolver and swingline credit facility	(34,250)	(20,250)
Repayment of senior secured term loan	(2,500)	(2,338)
(Repayment of) proceeds from euro cash pool and other loans, net	(12,802)	68
Other financing activities, net	(151)	526
Net cash (used in) provided by financing activities	(2,203)	11,756

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<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(108,668)	(61,499)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	163,881	79,701
Effect of currency exchange rate changes on cash	(959)	1,168
	<u>          </u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 54,254</b>	<b>\$ 19,370</b>
	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 5,882	\$ 5,823
	<u>          </u>	<u>          </u>
Income taxes, net of refunds	\$ 3,529	\$ 14,532
	<u>          </u>	<u>          </u>

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

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Nature of Operations**

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

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

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). On July 23, 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc.

**2. Insignia Acquisition**

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

The aggregate preliminary purchase price for the acquisition of Insignia was approximately \$328.6 million, which includes: (1) \$267.9 million in cash paid for shares of Insignia's outstanding common stock, at \$11.156 per share, (2) \$38.2 million in cash paid for Insignia's outstanding Series A preferred stock and Series B preferred stock at \$100.00 per share plus accrued and unpaid dividends, (3) cash payments of \$7.9 million to holders of Insignia's vested and unvested warrants and options and (4) \$14.6 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.

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The preliminary purchase accounting adjustments related to the Insignia Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, July 23, 2003. The final valuation of the net assets acquired is expected to be completed as soon as practicable, but no later than one year from the acquisition date. Given the size and complexity of the acquisition, the fair valuation of certain assets is still preliminary. Additionally, adjustment to the estimated liabilities assumed in connection with the Insignia Acquisition may still be required.

During the three months ended March 31, 2004, we made the following adjustments to goodwill:

We assigned a \$6.6 million estimated fair value to the broker draw asset acquired from Insignia. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimate that we will derive benefit from the broker draw

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

asset related to Insignia's brokers over two years from the date of the Insignia Acquisition and we will amortize it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed, during that period. The allocation of purchase price to the broker draw asset, net of related tax impact, resulted in a \$3.8 million decrease in goodwill and a related \$1.4 million increase in net loss during the three months ended March 31, 2004, which includes a \$0.8 million adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003.

We recorded a \$5.0 million increase to goodwill due to an increase in liabilities primarily related to additional lease termination costs, contract termination costs and severance payments in excess of amounts previously accrued. All such adjustments were recorded in accordance with the requirements of Emerging Issues Task Force (EITF) No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. As of the consummation date of the acquisition of Insignia, our management began to assess and formulate a plan to close certain Insignia locations. Due to the size of this acquisition and the dispersed nature of Insignia's operations, a significant amount of time and effort was required to finalize plans with respect to closures, analyze the provisions of contracts to be terminated and estimate the total exit costs. The adjustment during the first quarter of 2004 represents a change in estimate as we completed our assessments and finalized our plans with respect to certain of the locations. Consistent with the requirements of EITF 95-3, finalization of our plans for all Insignia closures will be completed within one year of the consummation date of the acquisition.

We recorded a \$4.2 million increase to goodwill related to the sale of certain assets acquired in connection with the Insignia acquisition. Of this amount, \$3.7 million represents a receivable due from a buyer, which will be relieved in the second quarter of 2004 as cash was received in May 2004 and will be applied to the balance. The remaining \$500,000 adjustment reflects the sale of assets at an amount less than the value assigned in the preliminary purchase price allocation. As no event occurred during the period from the acquisition date to the sale date that would have impacted the value of these assets, our management concluded that the amount at which these assets were ultimately sold represents the best estimate of the value of these assets at the date of the Insignia Acquisition.

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and Insignia redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, the Company has accrued certain liabilities in accordance with EITF No. 95-3. These liabilities assumed in connection with the Insignia Acquisition consist of the following (dollars in thousands):

	2003 Charge To Goodwill	2004 Adjustments	Utilized To Date	To be Utilized
Severance	\$ 30,706	\$ 162	\$ (14,762)	\$ 16,106
Lease termination costs	28,922	2,969	(5,102)	26,789
Change of control payments	10,451		(10,451)	
Costs associated with exiting contracts	8,921	1,997	(9,723)	1,195
Legal settlements anticipated	8,739	(139)	(3,032)	5,568

	\$ 87,739	\$ 4,989	\$ (43,070)	\$ 49,658
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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**3. Basis of Presentation**

The consolidated statements of operations and cash flows for the three months ended March 31, 2004 include a full quarter of activity for Insignia. However, the consolidated statement of operations and cash flows for the three months ended March 31, 2003 do not include any activity of Insignia, as the Insignia Acquisition occurred on July 23, 2003. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our financial statements prior to the Insignia Acquisition.

Pro forma results for the three months ended March 31, 2003, assuming the Insignia Acquisition had occurred as of January 1, 2003, are presented below. These pro forma results have been prepared for comparative purposes only and include adjustments, such as increased amortization expense as a result of intangible assets acquired in the Insignia Acquisition, as well as higher interest expense as a result of debt incurred to finance the Insignia Acquisition. These pro forma results do not purport to be indicative of what operating results would have been had the Insignia Acquisition occurred on January 1, 2003, and may not be indicative of future operating results (dollars in thousands, except share data):

	<b>Three Months</b>
	<b>Ended</b>
	<b>March 31,</b>
	<b>2003</b>
	<hr/>
Revenue	\$ 393,624
Operating loss	(39,078)
Net loss	(31,751)
Basic and diluted loss per share	(0.51)

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form S-1 and include all information and footnotes required for interim financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates. All significant inter-company transactions and balances have been eliminated, and certain reclassifications have been made to prior periods consolidated financial statements to conform with the current period presentation. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2004.

**4. New Accounting Pronouncements**

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

In December 2003, the FASB issued a revised version of FIN 46 (FIN 46R). Among other things, the revision clarifies the definition of a variable interest entity, exempts most entities that are businesses from the

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

scope of FIN 46R and delays the effective date of the revised standard to no later than the end of the first reporting period ending after December 15, 2003 for special purpose entities and March 15, 2004 for all other types of entities. The adoption of this interpretation has not had, and is not expected to have, a material impact on our financial position or results of operations.

**5. Stock-Based Compensation**

Prior to the fourth quarter of 2003, we accounted for stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*.

In accordance with SFAS No. 123, we estimate the value of our options based upon the Minimum Value method. Option valuation models require the input of assumptions such as the expected stock price volatility. As our common stock was not freely tradable on a national securities exchange or an over-the-counter market during the periods presented in these financial statements, an effectively zero percent volatility was utilized. The dividend yield is also excluded from the calculation, as it is our present intention to retain all earnings.

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

	Three Months Ended March 31,	
	2004	2003
Net loss as reported	\$ (16,568)	\$ (1,347)
Add: Stock-based employee compensation expense included in reported net loss, net of the related tax effect	53	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of the related tax effect	(197)	(148)

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Pro forma net loss	\$ (16,712)	\$ (1,495)
<b>Basic and Diluted Loss per Share:</b>		
As Reported	\$ (0.26)	\$ (0.03)
Pro Forma	\$ (0.27)	\$ (0.04)

The weighted average minimum value of options granted by us was \$0.60 and \$0.58 for the three months ended March 31, 2004 and 2003, respectively. The minimum value of each option grant is estimated on the date of grant utilizing the following weighted average assumptions:

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Risk-free interest rate	3.08%	3.04%
Expected life	5 years	5 years

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

**6. Restricted Cash**

Included in the accompanying consolidated balance sheet as of March 31, 2004 and December 31, 2003, is restricted cash of \$15.2 million and \$14.9 million, respectively, which primarily consists of cash pledged to secure the guarantee of notes issued in connection with previous acquisitions by Insignia in the United Kingdom (UK). The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

**7. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended March 31, 2004 are as follows (dollars in thousands):

	Americas	EMEA	Asia Pacific	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at January 1, 2004	\$ 598,439	\$ 217,106	\$ 4,013	\$ 819,558
Purchase accounting adjustments related to acquisitions	5,838	344	(61)	6,121
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at March 31, 2004	\$ 604,277	\$ 217,450	\$ 3,952	\$ 825,679
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Other intangible assets totaled \$123.7 million and \$131.7 million, net of accumulated amortization of \$82.4 million and \$73.4 million, as of March 31, 2004 and December 31, 2003, respectively, and are comprised of the following (dollars in thousands):

As of March 31, 2004		As of December 31, 2003	
<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross Carrying	Accumulated Amortization	Gross Carrying	Accumulated Amortization

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	<u>Amount</u>	<u>          </u>	<u>Amount</u>	<u>          </u>
<b>Unamortizable intangible assets</b>				
Trademarks	\$ 63,700		\$ 63,700	
Tradename	19,826		19,826	
	<u>          </u>		<u>          </u>	
<b>Total</b>	<b>\$ 83,526</b>		<b>\$ 83,526</b>	
	<u>          </u>		<u>          </u>	
<b>Amortizable intangible assets</b>				
Backlog	\$ 72,503	\$ (65,925)	\$ 72,503	\$ (59,108)
Management contracts	26,033	(10,879)	25,649	(9,708)
Loan servicing rights	18,186	(4,272)	17,694	(3,812)
Other	5,808	(1,286)	5,808	(821)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ 122,530</b>	<b>\$ (82,362)</b>	<b>\$ 121,654</b>	<b>\$ (73,449)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

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

Management contracts are primarily comprised of property management contracts in the United States (US), the UK, France and other European operations, as well as valuation services and fund management contracts in the UK. These management contracts are being amortized over estimated useful lives of up to ten years.

Loan servicing rights represent the fair value of servicing assets in our mortgage banking line of business in the US, the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over estimated useful lives of up to ten years.

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

Amortization expense related to intangible assets was \$8.6 million and \$1.0 million for the three months ended March 31, 2004 and 2003, respectively. The estimated amortization expense for the five years ending December 31, 2008 approximates \$20.4 million, \$6.5 million, \$4.9 million, \$4.4 million and \$3.2 million, respectively.

**8. Investments in and Advances to Unconsolidated Subsidiaries**

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

## Condensed Balance Sheets Information:

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
Current assets	\$ 201,222	\$ 208,743
Non current assets	2,171,077	2,040,138
Current liabilities	198,149	154,778
Non current liabilities	1,016,541	969,993
Minority interest	4,735	4,600

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Statements of Operations Information:

	Three Months Ended March 31,	
	2004	2003
Net revenue	\$ 120,579	\$ 99,031
Operating income	23,888	23,604
Net income	34,184	21,077

Our investment management business involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage, appraisal and other professional services to these equity investees.

**9. Debt**

In order to partially fund the 2001 Merger, we entered into a credit agreement with Credit Suisse First Boston (CSFB) and other lenders and borrowed \$235.0 million of term loans on July 20, 2001. To partially fund the Insignia Acquisition in 2003, we amended and restated this credit agreement and borrowed an aggregate of an additional \$75.0 million of term loans on July 23, 2003. On October 14, 2003, we refinanced all of the outstanding loans under our amended and restated credit agreement. As part of this refinancing, we entered into a new amended and restated credit agreement. The prior credit facilities were, and the current amended and restated credit facilities, continue to be, jointly and severally guaranteed by us and substantially all of our domestic subsidiaries and are secured by a pledge of substantially all of our assets. Additionally, the credit agreement required, and after the amendment and restatement continues to require, us to pay a facility fee based on the total amount of the unused commitment.

The existing amended and restated credit agreement includes the following: (1) a term loan facility of \$300.0 million, which requires quarterly principal payments of \$2.5 million through September 30, 2008 and matures on December 31, 2008; and (2) a \$90.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. The revolving credit facility requires the repayment of any outstanding balance for a period of 45 consecutive days commencing on any day in the month of December of each year as determined by us. We repaid our revolving credit facility as of July 23, 2003 and at December 31, 2003 we had no revolving line of credit principal outstanding. As of March 31, 2004, we had \$13.3 million of revolving line of credit principal outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheet.

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Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 3.25% or the alternate base rate plus 2.25%. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. Borrowings under the revolving credit facility bear interest at varying rates based on our option, on either the applicable LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which are defined in the amended and restated credit agreement. The total amount outstanding under the term loan facility included in senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was \$295.0 million and \$297.5 million as of March 31, 2004 and December 31, 2003, respectively.

On May 22, 2003, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued \$200.0 million in aggregate principal amount of 9¾% senior notes due May 15, 2010. The proceeds of this issuance

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

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

Also in connection with the 2001 Merger, we issued \$65.0 million in aggregate principal amount of 16% senior notes due July 20, 2011. The 16% senior notes are unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrues at a rate of 16.0% per year and is payable quarterly in arrears. Interest may be paid in kind to the extent our ability to pay cash dividends is restricted by the terms of our amended and restated credit agreement. Additionally, interest in excess of 12.0% may, at our option, be paid in kind through July 2006. We elected to pay in kind the interest in excess of 12.0%, that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003. In the event of a change in control, we are obligated to make an offer to purchase all of our outstanding 16% senior notes at 101.0% of par. In addition, under the terms of the indenture governing the 16% senior notes, the notes are redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. However, the restricted payments covenant in our amended and restated credit agreement prevents us from purchasing or redeeming the 16% senior notes unless the purchase or redemption falls within the specified exceptions to the covenant. On October 27, 2003 and December 29, 2003, we redeemed \$20.0 million and \$10.0 million, respectively, in aggregate principal amount of our 16% senior notes pursuant to these exceptions. We paid \$2.9 million of premiums in connection with these redemptions. The amount of the 16% senior notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$35.8 million and \$35.5 million as of March 31, 2004 and December 31, 2003, respectively.



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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

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

We had short-term borrowings of \$113.8 million and \$270.1 million with related average interest rates of 2.8% and 2.7% as of March 31, 2004 and December 31, 2003, respectively.

Our wholly owned subsidiary, L.J. Melody & Company (L.J. Melody), has a credit agreement with Residential Funding Corporation (RFC) for the purpose of funding mortgage loans that will be resold. On September 26, 2003, we entered into a Fourth Amended and Restated Warehousing Credit and Security Agreement. The agreement provides for a revolving line of credit of up to \$200.0 million, bears interest at one-month LIBOR plus 1.0% and expires on August 31, 2004. By amendment on November 14, 2003, the agreement was modified to provide a revolving line of credit increase of \$50.0 million that resulted in a total line of credit equaling \$250.0 million, which expires on August 31, 2004.

During the quarter ended March 31, 2004, we had a maximum of \$230.8 million revolving line of credit principal outstanding with RFC. At March 31, 2004 and December 31, 2003 we had a \$72.7 million and a \$230.8 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had a \$72.7 million and a \$230.8 million warehouse receivable representing mortgage loans funded through the line of credit that had not been purchased as of March 31, 2004 and December 31, 2003, respectively, which are also included in the accompanying consolidated balance sheets.

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

In connection with our acquisition of Westmark Realty Advisors in 1995, we issued approximately \$20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2003. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010.

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**(Unaudited)**

During the year ended December 31, 2002, all of the Westmark senior notes bore interest at 9.0%. On January 1, 2003, the interest rate on some of these notes was converted to varying rates equal to the interest rate in effect with respect to amounts outstanding under our credit agreement. On January 1, 2005, the interest rate on all of the other Westmark senior notes will be adjusted to equal the interest rate then in effect with respect to amounts outstanding under our credit agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$12.1 million as of March 31, 2004 and December 31, 2003.

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

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

**10. Commitments and Contingencies**

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

In connection with the sale of real estate investment assets by Insignia to Island Fund I LLC (Island) on July 23, 2003, Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of March 31, 2004, an aggregate of approximately \$10.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a \$1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately \$2.9 million as security for Island's reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island's future reimbursement obligations will not exceed the amount of the letter of credit provided to

us by Island.

L.J. Melody previously executed an agreement with the Federal National Mortgage Association (Fannie Mae) to initially fund the purchase of a commercial mortgage loan portfolio using proceeds from its RFC line of

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**CB RICHARD ELLIS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

credit. Subsequently, a 100% participation in the loan portfolio was sold to Fannie Mae and we retained the credit risk on the first 2% of losses incurred on the underlying portfolio of commercial mortgage loans. The current loan portfolio balance is \$98.6 million and we have collateralized a portion of our obligations to cover the first 1% of losses through a letter of credit in favor of Fannie Mae for a total of approximately \$1.0 million. The other 1% is covered in the form of a guarantee to Fannie Mae.

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

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

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. As of March 31, 2004 we had committed \$22.6 million to fund future co-investments. 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.

**11. Comprehensive Loss**

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Comprehensive loss consists of net loss and other comprehensive (loss) income. Accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-US subsidiaries are deemed to be reinvested for an indefinite period of time.

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

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net loss	\$ (16,568)	\$ (1,347)
Foreign currency translation (loss) gain	(4,487)	121
Comprehensive loss	\$ (21,055)	\$ (1,226)

**12. Per Share Information**

For the three months ended March 31, 2004 and 2003, our basic and diluted loss per share was computed by dividing the net loss by the weighted average number of common shares outstanding of 62,522,176 and 41,651,415, respectively. As a result of operating losses incurred, diluted weighted average shares outstanding did not give effect to potential common shares, as to do so would have been anti-dilutive.

**13. Fiduciary Funds**

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which amounted to \$640.8 million and \$626.3 million at March 31, 2004 and December 31, 2003, respectively.

**14. Pensions**

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

**Three Months Ended  
March 31,**

	<u>2004</u>	<u>2003</u>
Service cost	\$ 1,660	\$ 1,419
Interest cost	2,837	1,392
Expected return on plan assets	(3,184)	(1,587)
Amortization of prior service costs	(53)	
Amortization of unrecognized net gain	421	497
	<u>          </u>	<u>          </u>
Net periodic pension cost	<u>\$ 1,681</u>	<u>\$ 1,721</u>

We contributed an additional \$1.0 million to fund our pension plan during the three months ended March 31, 2004. We expect to contribute a total of \$4.4 million to fund our pension plan for the year ended December 31, 2004.

#### 15. Merger-Related Charges

We recorded merger-related charges of \$10.0 million for the three months ended March 31, 2004 in connection with the Insignia Acquisition. These charges primarily related to the exit of facilities that were occupied by us prior to the Insignia acquisition that became duplicative as a result of such acquisition. We recorded charges for the exit of these facilities as premises were vacated in accordance with SFAS No. 146,

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*Accounting for Costs Associated with Exit or Disposal Activities.* Additionally, during the three months ended March 31, 2004, we recorded consulting costs of \$1.2 million, which represented fees paid to outside parties for nonrecurring activities relating to the combination of Insignia's financial systems and businesses with ours. Our merger-related charges consisted of the following (dollars in thousands):

	<b>2003</b>	<b>2004</b>	<b>Utilized</b>	<b>To be</b>
	<b>Charge</b>	<b>Adjustments</b>	<b>To Date</b>	<b>Utilized</b>
Lease termination costs	\$ 15,805	\$ 7,143	\$ (2,775)	\$ 20,173
Severance	7,042	993	(8,035)	
Change of control payments	6,525		(6,525)	
Consulting costs	2,738	1,154	(3,892)	
Other	4,707	670	(5,377)	
<b>Total merger-related charges</b>	<b>\$ 36,817</b>	<b>\$ 9,960</b>	<b>\$ (26,604)</b>	<b>\$ 20,173</b>

**16. Guarantor and Nonguarantor Financial Statements**

The 9 ¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11 ¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. (See Note 9 to the consolidated financial statements for additional information on the 9 ¾% senior notes and the 11 ¼% senior subordinated notes.)

The following condensed consolidating financial information includes:

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

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

Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and intercompany balances and transactions. The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. The condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003, reflect the allocation of goodwill based upon the estimated fair value of Insignia's acquired reporting units (See Note 2 to the consolidated financial statements for additional information).

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,177	\$ 13,338	\$ 21,932	\$ 15,807	\$	\$ 54,254
Restricted cash			13,036	2,129		15,165
Receivables, less allowance for doubtful accounts	17	18	123,953	148,586		272,574
Warehouse receivable			72,725			72,725
Prepaid expenses and other current assets	75,865	30,126	27,220	23,976	(29,145)	128,042
<b>Total current assets</b>	<b>79,059</b>	<b>43,482</b>	<b>258,866</b>	<b>190,498</b>	<b>(29,145)</b>	<b>542,760</b>
Property and equipment, net			70,834	46,506		117,340
Goodwill			578,218	247,461		825,679
Other intangible assets, net			97,093	26,601		123,694
Deferred compensation assets		81,111				81,111
Investment in and advances to unconsolidated subsidiaries		5,361	53,455	14,538		73,354
Investment in consolidated subsidiaries	279,195	67,695	128,892		(475,782)	
Intercompany loan receivable		950,064			(950,064)	
Deferred tax assets, net	30,216					30,216
Other assets, net	2,305	31,673	31,860	59,743		125,581
<b>Total Assets</b>	<b>\$ 390,775</b>	<b>\$ 1,179,386</b>	<b>\$ 1,219,218</b>	<b>\$ 585,347</b>	<b>\$ (1,454,991)</b>	<b>\$ 1,919,735</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,192	\$ 20,709	\$ 78,412	\$ 88,412	\$	\$ 188,725
Intercompany payable	29,145				(29,145)	
Compensation and employee benefits payable			89,389	54,608		143,997
Accrued bonus and profit sharing			29,340	53,821		83,161
<b>Short-term borrowings:</b>						
Warehouse line of credit			72,725			72,725
Revolver and swingline credit facility		13,250				13,250
Other			25,620	2,226		27,846
<b>Total short-term borrowings</b>		<b>13,250</b>	<b>98,345</b>	<b>2,226</b>		<b>113,821</b>
Current maturities of long-term debt		10,000	1,028	224		11,252
Other current liabilities	12,522			120		12,642

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Total Current Liabilities	42,859	43,959	296,514	199,411	(29,145)	553,598
Long-Term Debt:						
11¼% senior subordinated notes, net of unamortized discount		226,236				226,236
Senior secured term loan		285,000				285,000
9¾% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,756					35,756
Other long-term debt			330	43,170		43,500
Intercompany loan payable			807,692	142,372	(950,064)	
	<u>35,756</u>	<u>711,236</u>	<u>808,022</u>	<u>185,542</u>	<u>(950,064)</u>	<u>790,492</u>
Total long-term debt						
Deferred compensation liability		144,996				144,996
Other liabilities			46,987	64,642		111,629
	<u>78,615</u>	<u>900,191</u>	<u>1,151,523</u>	<u>449,595</u>	<u>(979,209)</u>	<u>1,600,715</u>
Total Liabilities						
Minority interest				6,860		6,860
Commitments and contingencies						
Stockholders' Equity:	312,160	279,195	67,695	128,892	(475,782)	312,160
	<u>\$ 390,775</u>	<u>\$ 1,179,386</u>	<u>\$ 1,219,218</u>	<u>\$ 585,347</u>	<u>\$ (1,454,991)</u>	<u>\$ 1,919,735</u>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2003

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,008	\$ 17	\$ 148,752	\$ 12,104	\$	\$ 163,881
Restricted cash			12,545	2,354		14,899
Receivables, less allowance for doubtful accounts	27	18	114,215	208,156		322,416
Warehouse receivable			230,790			230,790
Prepaid expenses and other current assets	63,557	42,151	18,957	22,998	(40,667)	106,996
	<u>66,592</u>	<u>42,186</u>	<u>525,259</u>	<u>245,612</u>	<u>(40,667)</u>	<u>838,982</u>
Total current assets						
Property and equipment, net			66,280	47,289		113,569
Goodwill			572,376	247,182		819,558
Other intangible assets, net			101,326	30,405		131,731
Deferred compensation assets		76,389				76,389
Investment in and advances to unconsolidated subsidiaries		4,973	50,732	12,656		68,361
Investment in consolidated subsidiaries	321,451	252,399	199,393		(773,243)	
Intercompany loan receivable		787,009			(787,009)	
Deferred tax assets, net	32,179					32,179
Other assets, net	2,555	27,819	44,779	57,559		132,712
	<u>\$ 422,777</u>	<u>\$ 1,190,775</u>	<u>\$ 1,560,145</u>	<u>\$ 640,703</u>	<u>\$ (1,600,919)</u>	<u>\$ 2,213,481</u>
<b>Total Assets</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,187	\$ 7,614	\$ 64,392	\$ 116,594	\$	\$ 189,787
Intercompany payable	40,667				(40,667)	
Compensation and employee benefits payable			98,160	50,714		148,874
Accrued bonus and profit sharing			112,365	87,978		200,343
<b>Short-term borrowings:</b>						
Warehouse line of credit			230,790			230,790
Other			25,480	13,867		39,347
			<u>256,270</u>	<u>13,867</u>		<u>270,137</u>
Total short-term borrowings						
Current maturities of long-term debt		10,000	1,029	256		11,285
Other current liabilities	12,522			469		12,991
	<u>54,376</u>	<u>17,614</u>	<u>532,216</u>	<u>269,878</u>	<u>(40,667)</u>	<u>833,417</u>
<b>Total Current Liabilities</b>						

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Long-Term Debt:

11¼% senior subordinated notes, net of unamortized discount		226,173				226,173
Senior secured term loan		287,500				287,500
9¾% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,472					35,472
Other long-term debt			330	41,945		42,275
Inter-company loan payable			726,844	60,165	(787,009)	
<b>Total long-term debt</b>	<b>35,472</b>	<b>713,673</b>	<b>727,174</b>	<b>102,110</b>	<b>(787,009)</b>	<b>791,420</b>
Deferred compensation liability		138,037				138,037
Other liabilities			48,356	62,666		111,022
<b>Total Liabilities</b>	<b>89,848</b>	<b>869,324</b>	<b>1,307,746</b>	<b>434,654</b>	<b>(827,676)</b>	<b>1,873,896</b>
Minority interest				6,656		6,656
Commitments and contingencies						
Stockholders' Equity:	332,929	321,451	252,399	199,393	(773,243)	332,929
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 422,777</b>	<b>\$ 1,190,775</b>	<b>\$ 1,560,145</b>	<b>\$ 640,703</b>	<b>\$ (1,600,919)</b>	<b>\$ 2,213,481</b>

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated Total</u>
Revenue	\$	\$	\$ 308,899	\$ 132,093	\$	\$ 440,992
Costs and expenses:						
Cost of services			163,546	60,676		224,222
Operating, administrative and other	296	2,574	126,091	70,290		199,251
Depreciation and amortization			9,967	6,864		16,831
Merger-related charges			7,672	2,288		9,960
Operating (loss) income	(296)	(2,574)	1,623	(8,025)		(9,272)
Equity income (loss) from unconsolidated subsidiaries		352	2,451	(277)		2,526
Interest income	27	14,240	650	1,612	(14,222)	2,307
Interest expense	2,071	16,168	12,996	3,666	(14,222)	20,679
Equity loss from consolidated subsidiaries	(14,612)	(12,727)	(7,750)		35,089	
Loss before benefit for income taxes	(16,952)	(16,877)	(16,022)	(10,356)	35,089	(25,118)
Benefit for income taxes	(384)	(2,265)	(3,295)	(2,606)		(8,550)
Net loss	\$ (16,568)	\$ (14,612)	\$ (12,727)	\$ (7,750)	\$ 35,089	\$ (16,568)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2003

(Dollars in thousands)

Parent	CBRE	Elimination
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			<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>		<u>Consolidated Total</u>
Revenue	\$	\$	\$ 190,490	\$ 73,234	\$	\$ 263,724
Costs and expenses:						
Cost of services			89,697	33,902		123,599
Operating, administrative and other	100	1,968	83,035	41,072		126,175
Depreciation and amortization			4,234	1,937		6,171
Operating (loss) income	(100)	(1,968)	13,524	(3,677)		7,779
Equity income (loss) from unconsolidated subsidiaries		24	3,249	(210)		3,063
Interest income	36	9,313	455	566	(9,295)	1,075
Interest expense	2,909	10,066	8,855	1,789	(9,295)	14,324
Equity income (loss) from consolidated subsidiaries	331	3,378	(4,649)		940	
(Loss) income before (benefit) provision for income taxes	(2,642)	681	3,724	(5,110)	940	(2,407)
(Benefit) provision for income taxes	(1,295)	350	346	(461)		(1,060)
Net (loss) income	\$ (1,347)	\$ 331	\$ 3,378	\$ (4,649)	\$ 940	\$ (1,347)

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## CB RICHARD ELLIS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2004

(Dollars in thousands)

	<u>Parent</u>	<u>CBRE</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Consolidated Total</u>
<b>CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:</b>	\$ (14,076)	\$ 15,002	\$ (78,947)	\$ (9,346)	\$ (87,367)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures, net of concessions received			(9,039)	(1,367)	(10,406)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(3,060)	(4,009)	(7,069)
Other investing activities, net			456	(2,079)	(1,623)
Net cash used in investing activities			(11,643)	(7,455)	(19,098)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from revolver and swingline credit facility		47,500			47,500
Repayment of revolver and swingline credit facility		(34,250)			(34,250)
Repayment of senior secured term loan		(2,500)			(2,500)
Repayment of euro cash pool and other loans, net			(286)	(12,516)	(12,802)
Decrease (increase) in intercompany receivables, net	13,975	(12,276)	(35,944)	34,245	
Other financing activities, net	270	(155)		(266)	(151)
Net cash provided by (used in) financing activities	14,245	(1,681)	(36,230)	21,463	(2,203)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	169	13,321	(126,820)	4,662	(108,668)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	3,008	17	148,752	12,104	163,881
Effect of currency exchange rate changes on cash				(959)	(959)
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 3,177	\$ 13,338	\$ 21,932	\$ 15,807	\$ 54,254