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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

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

For the Transition Period from to

Commission File Number 001-32205

CB RICHARD ELLIS GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3391143** **(I.R.S. Employer Identification Number)**
865 South Figueroa Street, Suite 3400 **Los Angeles, California** **(Address of principal executive offices)**	**90017** **(Zip Code)**
(213) 613-3226 **(Registrant's telephone number, including area code)**	**(Former name, former address and former fiscal year if changed since last report)**

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

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

The number of shares of Class A common stock outstanding at April 29, 2005 was 72,034,219.

FORM 10-Q

March 31, 2005

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	March 31, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 157,784	$ 256,896
Restricted cash	9,104	9,213
Receivables, less allowance for doubtful accounts of $14,237 and $14,811 at March 31, 2005 and December 31, 2004, respectively	293,844	394,062
Warehouse receivable	43,790	138,233
Prepaid expenses	29,004	26,586
Deferred tax assets, net	27,869	23,122
Other current assets	21,732	15,583
Total Current Assets	583,127	863,695
Property and equipment, net	134,576	137,703
Goodwill	820,794	821,508
Other intangible assets, net of accumulated amortization of $96,982 and $95,373 at March 31, 2005 and December 31, 2004, respectively	112,254	113,653
Deferred compensation assets	111,091	102,578
Investments in and advances to unconsolidated subsidiaries	91,412	83,501
Deferred tax assets, net	80,430	78,471
Other assets, net	66,581	70,527
Total Assets	$ 2,000,265	$ 2,271,636
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 166,408	$ 185,877
Compensation and employee benefits payable	168,611	150,721
Accrued bonus and profit sharing	111,718	271,020
Short-term borrowings:		
Warehouse line of credit	43,790	138,233
Other	22,564	21,736
Total short-term borrowings	66,354	159,969
Current maturities of long-term debt	11,939	11,954
Other current liabilities	26,883	29,547
Total Current Liabilities	551,913	809,088
Long-Term Debt:		
11¼% senior subordinated notes, net of unamortized discount of $1,985 and $2,337 at March 31, 2005 and December 31, 2004, respectively	178,979	205,032
Senior secured term loan	262,300	265,250
9¾% senior notes	130,000	130,000
Other long-term debt	570	602
Total Long-Term Debt	571,849	600,884
Deferred compensation liability	160,742	160,281
Pension liability	27,458	27,871
Other liabilities	102,145	107,639
Total Liabilities	1,414,107	1,705,763
Commitments and contingencies	—	—
Minority interest	6,675	5,925
Stockholders' Equity:		
Class A common stock; $0.01 par value; 325,000,000 shares authorized; 71,961,781 and 71,031,429 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	720	710
Additional paid-in capital	520,438	513,801
Notes receivable from sale of stock	(171)	(433)
Accumulated earnings	80,746	66,174
Accumulated other comprehensive loss	(22,250)	(20,304)
Total Stockholders' Equity	579,483	559,948
Total Liabilities and Stockholders' Equity	$ 2,000,265	$ 2,271,636

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

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except share data)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Revenue	$ 538,266	$ 440,992
Costs and expenses:		
Cost of services	268,046	224,222
Operating, administrative and other	223,221	199,251
Depreciation and amortization	10,370	16,831
Merger-related charges	—	9,960
Operating income (loss)	36,629	(9,272)
Equity income from unconsolidated subsidiaries	3,241	2,526
Interest income	2,445	1,273
Interest expense	13,598	19,645
Loss on extinguishment of debt	4,930	—
Income (loss) before provision (benefit) for income taxes	23,787	(25,118)
Provision (benefit) for income taxes	9,215	(8,550)
Net income (loss)	$ 14,572	$ (16,568)
Basic income (loss) per share	$ 0.20	$ (0.26)
Weighted average shares outstanding for basic income (loss) per share	73,532,843	62,522,176
Diluted income (loss) per share	$ 0.19	$ (0.26)
Weighted average shares outstanding for diluted income (loss) per share	76,184,725	62,522,176

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,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 14,572	$ (16,568)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	10,370	16,831
Amortization and write-off of deferred financing costs	1,888	1,662
Amortization and write-off of long-term debt discount	352	347
Deferred compensation deferrals	7,413	4,863
Gain on sale of servicing rights, property held for sale and other assets	(329)	(518)
Equity income from unconsolidated subsidiaries	(3,241)	(2,526)
Provision for doubtful accounts	371	929
Deferred income taxes	(6,859)	(8,343)
Decrease in receivables	93,554	46,988
Increase in deferred compensation assets	(8,513)	(4,722)
(Increase) decrease in prepaid expenses and other assets	(4,726)	272
Decrease in accounts payable and accrued expenses	(16,496)	(2,721)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(139,303)	(120,613)
Increase (decrease) in income tax payable	5,197	(4,414)
(Decrease) increase in other liabilities	(14,942)	502
Tenant concessions received	517	681
Other operating activities, net	600	664
Net cash used in operating activities	(59,575)	(86,686)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,144)	(11,087)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(41)	(7,069)
Investment in and advances to unconsolidated subsidiaries, net	(5,371)	(2,135)
Other investing activities, net	1,329	512
Net cash used in investing activities	(11,227)	(19,779)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolver and swingline credit facility	—	47,500
Repayment of revolver and swingline credit facility	—	(34,250)
Repayment of senior secured term loan	(2,950)	(2,500)
Repayment of euro cash pool loan and other loans, net	(306)	(12,802)
Repayment of 11¼% senior subordinated notes	(26,405)	—
Proceeds from exercise of stock options	2,075	100
Other financing activities, net	453	(251)
Net cash used in financing activities	(27,133)	(2,203)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,935)	(108,668)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	256,896	163,881
Effect of currency exchange rate changes on cash	(1,177)	(959)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 157,784	$ 54,254
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of amount capitalized	$ 7,755	$ 5,882
Income taxes, net of refunds	$ 10,049	$ 3,529

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

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, (which may be referred to in this Form 10-Q as "we," "us," and "our") was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international commercial real estate services firm. Prior to July 20, 2001, we were a wholly owned subsidiary of Blum Strategic Partners, L.P. (Blum Strategic), formerly known as RCBA Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. We have no substantive operations other than our investment in CBRE.

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock (the IPO). In connection with the IPO, we issued and sold 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately $135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately $290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately $4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004 and July 14, 2004. Lastly in December 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders.

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

2. Insignia Acquisition

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

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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

	Liability Balance at December 31, 2004	2005 Utilization	To be Utilized
Lease termination costs	$ 23,977	$ (606)	$ 23,371
Legal settlements anticipated	9,285	(1,396)	7,889
Severance	5,479	(1,190)	4,289
Costs associated with exiting contracts	1,395	(1,131)	264
	$ 40,136	$ (4,323)	$ 35,813

3. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-Q 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 to the current period presentation. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2005. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our 2004 Annual Report on Form 10-K, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2004.

4. Stock-Based Compensation

Prior to 2003, we accounted for our employee stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "*Accounting for Stock Issued to Employees*" and related Financial Accounting Standards Board (FASB) interpretations. Accordingly, compensation cost for employee stock options was measured as the excess, if any, of the estimated market price of our Class A common stock at the date of grant over the amount an employee was required to pay to acquire the stock.

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*."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Awards under our stock-based compensation plans vest over four or five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net income (loss) for the three months ended March 31, 2005 and 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

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

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

	Three Months Ended March 31,	
	2005	**2004**
Net income (loss) as reported	$ 14,572	$ (16,568)
Add: Stock-based employee compensation expense included in reported net income (loss), net of the related tax effect	476	53
Deduct: Total stock-based employee compensation expense determined under Black-Scholes method for all awards, net of the related tax effect	(591)	(197)
Pro forma net income (loss)	$ 14,457	$ (16,712)
Basic income (loss) per share:		
As reported	$ 0.20	$ (0.26)
Pro forma	$ 0.20	$ (0.27)
Diluted income (loss) per share:		
As reported	$ 0.19	$ (0.26)
Pro forma	$ 0.19	$ (0.27)

The weighted average fair value of options granted by us was $12.86 and $0.60 for the three months ended March 31, 2005 and 2004, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	Three Months Ended March 31,	
	2005	**2004**
Risk-free interest rate	3.42%	3.08%
Expected volatility	40.0%	0.00%
Expected life	4 years	5 years

Option valuation models require the input of subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

options and because changes in the subjective input assumptions can materially affect the fair value estimate, we do not believe that the Black-Scholes model necessarily provides a reliable single measure of the fair value of our employee stock options.

5. Fair Value of Financial Instruments

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

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

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

Warehouse Receivable: Due to the short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of funded mortgage loans and generally reflects the value of the Washington Mutual Bank, FA (WaMu) warehouse line of credit outstanding (See Note 9).

Short-Term Borrowings: The majority of this balance represents the WaMu warehouse line of credit. Due to the short-term maturities and variable interest rates of these instruments, fair value approximates carrying value (See Note 9).

11¼% Senior Subordinated Notes: Based on dealers' quotes, the estimated fair value of the 11¼% senior subordinated notes was $202.7 million and $236.4 million at March 31, 2005 and December 31, 2004, respectively. Their actual carrying value totaled $179.0 million and $205.0 million at March 31, 2005 and December 31, 2004, respectively (See Note 9).

9¾% Senior Notes: Based on dealers' quotes, the estimated fair value of the 9¾% senior notes was $146.9 million and $148.2 million at March 31, 2005 and December 31, 2004, respectively. Their actual carrying value totaled $130.0 million at March 31, 2005 and December 31, 2004 (See Note 9).

Senior Secured Terms Loans & Other Long-Term Debt: Estimated fair values approximate respective carrying values because the substantial majority of these instruments are based on variable interest rates (See Note 9).

6. Restricted Cash

Included in the accompanying consolidated balance sheets as of March 31, 2005 and December 31, 2004, is restricted cash of $9.1 million and $9.2 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the United Kingdom (U.K.).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for us and each of our segments (See Note 17 for a description of our segments) for the three months ended March 31, 2005 are as follows (dollars in thousands):

	Americas	EMEA	Asia Pacific	Global Investment Management	Total
Balance at January 1, 2005	$578,310	$202,160	$ 7,381	$ 33,657	$821,508
Purchase accounting adjustments related to acquisitions	(672)	(54)	12	—	(714)
Balance at March 31, 2005	$577,638	$202,106	$ 7,393	$ 33,657	$820,794

Other intangible assets totaled $112.3 million and $113.7 million, net of accumulated amortization of $97.0 million and $95.4 million, as of March 31, 2005 and December 31, 2004, respectively, and are comprised of the following (dollars in thousands):

	As of March 31, 2005		As of December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortizable intangible assets				
Trademarks	$ 63,700		$ 63,700	
Trade name	19,826		19,826	
	$ 83,526		$ 83,526	
Amortizable intangible assets				
Backlog	$ 72,149	$ (72,149)	$ 72,149	$ (72,149)
Management contracts	27,299	(15,431)	27,486	(14,756)
Loan servicing rights	20,454	(6,255)	20,057	(5,786)
Other	5,808	(3,147)	5,808	(2,682)
	$125,710	$ (96,982)	$125,500	$ (95,373)
Total intangible assets	$209,236	$ (96,982)	$209,026	$ (95,373)

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

Backlog represented 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 consisted 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 was amortized as cash was received or upon final closing of these pending transactions. As of December 31, 2004, the backlog was fully amortized.

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Loan servicing rights represent the fair value of servicing assets in our mortgage brokerage line of business in the U.S., the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over estimated useful lives of up to ten years.

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

Amortization expense related to intangible assets was $1.8 million and $8.6 million for the three months ended March 31, 2005 and 2004, respectively. The estimated annual amortization expense for each of the years ended December 31, 2005 through December 31, 2009 approximates $6.4 million, $4.7 million, $4.2 million, $3.1 million and $2.5 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:

	March 31, 2005	December 31, 2004
Current assets	$ 258,875	$ 210,374
Non-current assets	$ 2,346,143	$ 2,426,286
Current liabilities	$ 350,676	$ 313,941
Non-current liabilities	$ 751,170	$ 906,246
Minority interest	$ 16,704	$ 15,406

Condensed Statements of Operations Information:

	Three Months Ended March 31,	
	2005	2004
Net revenue	$ 107,514	$ 120,579
Operating income	$ 21,384	$ 23,888
Net income	$ 42,540	$ 34,184

Our Global Investment Management segment involves investing our own capital in certain real estate investments with clients. We provide investment management, property management, brokerage and other professional services to these equity investees on an arm's length basis and earn revenues from these unconsolidated subsidiaries.

9. Debt

Since 2001, we have maintained a credit agreement with Credit Suisse First Boston (CSFB) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to $30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our IPO, we completed the refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement which became effective in connection with such refinancing. On November 15, 2004, we entered into an amendment to our new amended and restated credit agreement (the Credit Agreement), which reduced the interest rate spread of our term loan and increased flexibility on certain restricted payments and investments.

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

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to $25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the Credit Agreement, at a higher or lower rate. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was $274.1 million and $277.1 million as of March 31, 2005 and December 31, 2004, respectively.

Borrowings under the revolving credit facility bear interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of March 31, 2005 and December 31, 2004, we had no revolving credit facility principal outstanding. As of March 31, 2005, letters of credit totaling $21.1 million were outstanding, which letters of credit primarily relate to our subsidiaries' outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

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

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued $200.0 million in aggregate principal amount of 9¾% senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE's current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem $70.0 million in aggregate principal amount, or 35.0%, of our 9¾% senior notes, which also required the payment of a $6.8 million premium and accrued and unpaid interest through the date of redemption. Additionally, we wrote off $3.1 million of unamortized deferred financing costs in connection with this redemption. In the event of a change of control (as defined in the indenture governing our 9¾% senior notes), we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was $130.0 million as of March 31, 2005 and December 31, 2004.

In June 2001, in connection with the 2001 Merger, Blum CB issued $229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately $225.6 million, net of discount. CBRE assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the 2001 Merger. The 11¼% senior subordinated notes are unsecured senior subordinated obligations of CBRE and rank equally in right of payment with any of CBREs' existing and future unsecured senior subordinated indebtedness but are subordinated to any of CBREs' existing and future senior indebtedness. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11¼% senior subordinated notes), we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 2004, we repurchased $21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid $3.1 million of premiums and wrote off $0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. During the first quarter of 2005, we repurchased an additional $26.4 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $4.0 million of premiums and wrote off $1.0 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $179.0 million and $205.0 million as of March 31, 2005 and December 31, 2004, respectively.

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

We had short-term borrowings of $66.4 million and $160.0 million with weighted average interest rates of 3.8% and 3.7% as of March 31, 2005 and December 31, 2004, respectively.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our wholly owned subsidiary, L.J. Melody & Company, has a credit agreement with WaMu for the purpose of funding mortgage loans that will be resold. This credit agreement was previously with Residential Funding Corporation (RFC). On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit), which provides for a warehouse line of credit of up to $250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on September 1, 2005. This agreement provides for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On December 13, 2004, we and RFC entered into the First Amendment to the Fifth Amended and Restated Warehousing Credit and Security Agreement whereby the warehousing commitment was temporarily increased to $315.0 million, effective December 20, 2004. This temporary increase was for the period from December 20, 2004 to and including January 20, 2005. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. During the quarter ended March 31, 2005, we had a maximum of $138.2 million warehouse line of credit principal outstanding. As of March 31, 2005 and December 31, 2004, we had a $43.8 million and a $138.2 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $43.8 million and $138.2 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased as of March 31, 2005 and December 31, 2004, respectively, which are also included in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995, we issued approximately $20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2004. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.8 million and $12.1 million as of March 31, 2005 and December 31, 2004, respectively.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the U.K. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of March 31, 2005 and December 31, 2004, $8.4 million and $8.5 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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.

We had outstanding letters of credit totaling $3.6 million as of March 31, 2005, excluding letters of credit related to our outstanding indebtedness and operating leases. Approximately $2.8 million of these letters of credit were issued pursuant to the terms of a purchase agreement with Island Fund I LLC (Island). The remaining $0.8 million outstanding letter of credit is a Fannie Mae letter of credit executed by L.J. Melody. The outstanding letters of credit as of March 31, 2005 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling $8.5 million as of March 31, 2005, which consisted primarily of guarantees of property debt as well as obligations to Island and Fannie Mae. Approximately $3.6 million of the guarantees are related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island purchase agreement expired on September 15, 2004, and was subsequently extended until March 31, 2006. Currently, renewals, modifications and extensions of such loan may be made without our consent, but the $1.3 million amount of our Insignia guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of March 31, 2005, we had committed $16.3 million to fund future co-investments.

11. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive loss. In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

The following table provides a summary of comprehensive income (loss) (dollars in thousands):

	Three Months Ended March 31,	
	2005	2004
Net income (loss)	$ 14,572	$ (16,568)
Foreign currency translation loss	(1,946)	(4,487)
Comprehensive income (loss)	$ 12,626	$ (21,055)

12. Earnings (Loss) Per Share

Earnings (loss) per share (EPS) is accounted for in accordance with SFAS No. 128, "*Earnings Per Share.*" Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

outstanding during each period. Where appropriate, the computation of diluted EPS further assumes the dilutive effect of potential common shares, which include stock options. The following is a calculation of earnings (loss) per share (dollars in thousands, except share data):

	Three Months Ended March 31,					
	2005			2004		
	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount
Basic earnings (loss) per share:						
Net income (loss) applicable to common stockholders	$ 14,572	73,532,843	$ 0.20	$ (16,568)	62,522,176	$ (0.26)
Diluted earnings (loss) per share:						
Net income (loss) applicable to common stockholders	$ 14,572	73,532,843		$ (16,568)	62,522,176	
Dilutive effect of incremental stock options	—	2,651,882		—	—	
Net income (loss) applicable to common stockholders	$ 14,572	76,184,725	$ 0.19	$ (16,568)	62,522,176	$ (0.26)

As a result of operating losses incurred for the three months ended March 31, 2004, dilutive 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 are held by us on behalf of clients and which amounted to $740.3 million and $676.3 million at March 31, 2005 and December 31, 2004, respectively.

14. Pensions

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

	Three Months Ended March 31,	
	2005	2004
Service cost	$ 1,427	$ 1,660
Interest cost	3,216	2,837
Expected return on plan assets	(3,576)	(3,184)
Amortization of prior service costs	(123)	(53)
Amortization of unrecognized net gain	200	421
Net periodic pension cost	$ 1,144	$ 1,681

We contributed an additional $1.6 million to fund our pension plans during the three months ended March 31, 2005. We expect to contribute a total of $5.3 million to fund our pension plans for the year ended December 31, 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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 as well as the termination of employees, both of which became duplicative as a result of the Insignia Acquisition. We recorded charges for the exit of these facilities as premises were vacated and for redundant employees as these employees were terminated, both in accordance with SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*" Additionally, we recorded consulting costs, which represented fees paid to outside parties for nonrecurring services relating to the combination of Insignia's financial systems and businesses with ours. The remaining liability associated with items previously charged to merger-related costs in connection with the Insignia Acquisition consisted of the following (dollars in thousands):

	Liability Balance at December 31, 2004	2005 Utilization	To be Utilized
Lease termination costs	$ 25,920	$ (2,057)	$ 23,863

16. Guarantor and Nonguarantor Financial Statements

The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries (See Note 9 to the consolidated financial statements for additional information on the 9¾% senior notes and the 11¼% senior subordinated notes).

The following condensed consolidating financial information includes:

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

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

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MARCH 31, 2005
(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 3,524	$ 15,664	$ 90,087	$ 48,509	$ —	$ 157,784
Restricted cash	—	—	8,709	395	—	9,104
Receivables, less allowance for doubtful accounts	9	—	122,220	171,615	—	293,844
Warehouse receivable (a)	—	—	43,790	—	—	43,790
Other current assets	29,411	147	19,609	29,438	—	78,605
Total Current Assets	32,944	15,811	284,415	249,957	—	583,127
Property and equipment, net	—	—	82,524	52,052	—	134,576
Goodwill	—	—	560,933	259,861	—	820,794
Other intangible assets, net	—	—	87,697	24,557	—	112,254
Deferred compensation assets	—	111,091	—	—	—	111,091
Investments in and advances to unconsolidated subsidiaries	—	8,795	64,300	18,317	—	91,412
Investments in consolidated subsidiaries	409,273	256,041	213,041	—	(878,355)	—
Inter-company loan receivable	83,719	753,830	—	—	(837,549)	—
Deferred tax assets, net	80,430	—	—	—	—	80,430
Other assets, net	—	21,612	30,711	14,258	—	66,581
Total Assets	$ 606,366	$ 1,167,180	$ 1,323,621	$ 619,002	$ (1,715,904)	$ 2,000,265
Current Liabilities:						
Accounts payable and accrued expenses	$ —	$ 14,086	$ 66,065	$ 86,257	$ —	$ 166,408
Compensation and employee benefits payable	—	—	105,332	63,279	—	168,611
Accrued bonus and profit sharing	—	—	49,599	62,119	—	111,718
Short-term borrowings:						
Warehouse line of credit (a)	—	—	43,790	—	—	43,790
Other	—	—	20,256	2,308	—	22,564
Total short-term borrowings	—	—	64,046	2,308	—	66,354
Current maturities of long-term debt	—	11,800	—	139	—	11,939
Other current liabilities	26,883	—	—	—	—	26,883
Total Current Liabilities	26,883	25,886	285,042	214,102	—	551,913
Long-Term Debt:						
11¼% senior subordinated notes, net of unamortized discount	—	178,979	—	—	—	178,979
Senior secured term loan	—	262,300	—	—	—	262,300
9¾% senior notes	—	130,000	—	—	—	130,000
Inter-company loan payable	—	—	715,932	121,617	(837,549)	—
Other long-term debt	—	—	—	570	—	570
Total Long-Term Debt	—	571,279	715,932	122,187	(837,549)	571,849
Deferred compensation liability	—	160,742	—	—	—	160,742
Other liabilities	—	—	66,606	62,997	—	129,603
Total Liabilities	26,883	757,907	1,067,580	399,286	(837,549)	1,414,107
Minority interest	—	—	—	6,675	—	6,675
Commitments and contingencies	—	—	—	—	—	—
Stockholders' Equity	579,483	409,273	256,041	213,041	(878,355)	579,483
Total Liabilities and Stockholders' Equity	$ 606,366	$ 1,167,180	$ 1,323,621	$ 619,002	$ (1,715,904)	$ 2,000,265

(a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9¾% senior notes and 11¼% senior subordinated notes, all warehouse receivables funded under the WaMu line of credit are pledged to WaMu, and accordingly are not included as collateral for these notes or our other outstanding debt.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2004
(Dollars in thousands)

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

(a) Although L.J. Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9¾% senior notes and 11¼% senior subordinated notes, all warehouse receivables funded under the WaMu line of credit are pledged to WaMu, and accordingly are not included as collateral for these notes or our other outstanding debt.

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$ —	$ (117)	$ 369,679	$ 168,704	$ —	$ 538,266
Costs and expenses:						
Cost of services	—	—	190,117	77,929	—	268,046
Operating, administrative and other	1,045	2,005	140,480	79,691	—	223,221
Depreciation and amortization	—	—	6,566	3,804	—	10,370
Operating (loss) income	(1,045)	(2,122)	32,516	7,280	—	36,629
Equity income (loss) from unconsolidated subsidiaries	—	211	4,358	(1,328)	—	3,241
Interest income	21	10,850	1,425	882	(10,733)	2,445
Interest expense	112	12,991	9,721	1,507	(10,733)	13,598
Loss on extinguishment of debt	—	—	4,930	—	—	4,930
Equity income from consolidated subsidiaries	15,277	19,799	2,798	—	(37,874)	—
Income before (benefit) provision for income taxes	14,141	15,747	26,446	5,327	(37,874)	23,787
(Benefit) provision for income taxes	(431)	470	6,647	2,529	—	9,215
Net income	$ 14,572	$ 15,277	$ 19,799	$ 2,798	$ (37,874)	$ 14,572

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004
(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
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	578	(14,222)	1,273
Interest expense	2,071	16,168	12,996	2,632	(14,222)	19,645
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)

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, 2005
(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$ (4,144)	$ (2,105)	$ (61,712)	$ 8,386	$ (59,575)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	—	(5,497)	(1,647)	(7,144)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	—	—	(14)	(27)	(41)
Investment in and advances to unconsolidated subsidiaries, net	—	—	(4,817)	(554)	(5,371)
Other investing activities, net	—	16	1,313	—	1,329
Net cash provided by (used in) investing activities	—	16	(9,015)	(2,228)	(11,227)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of senior secured term loan	—	(2,950)	—	—	(2,950)
Repayment of euro cash pool loan and other loans, net	—	—	(300)	(6)	(306)
Repayment of 11¼% senior subordinated notes	—	(26,405)	—	—	(26,405)
Decrease (increase) in inter-company receivables, net	1,833	44,302	(55,349)	9,214	—
Other financing activities, net	2,339	—	—	189	2,528
Net cash provided by (used in) financing activities	4,172	14,947	(55,649)	9,397	(27,133)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28	12,858	(126,376)	15,555	(97,935)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3,496	2,806	216,463	34,131	256,896
Effect of currency exchange rate changes on cash	—	—	—	(1,177)	(1,177)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 3,524	$ 15,664	$ 90,087	$ 48,509	$ 157,784
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	$ —	$ 7,362	$ 296	$ 97	$ 7,755
Income taxes, net of refunds	$10,049	$ —	$ —	$ —	$ 10,049

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)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$(14,076)	$ 15,002	$ (78,266)	$ (9,346)	$ (86,686)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures	—	—	(9,720)	(1,367)	(11,087)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	—	—	(3,060)	(4,009)	(7,069)
Investment in and advances to unconsolidated subsidiaries, net	—	—	(39)	(2,096)	(2,135)
Other investing activities, net	—	—	495	17	512
Net cash used in investing activities	—	—	(12,324)	(7,455)	(19,779)
CASH FLOWS FROM FINANCING ACTIVITIES:					
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 loan and other loans, net	—	—	(286)	(12,516)	(12,802)
Decrease (increase) in inter-company 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)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	169	13,321	(126,820)	4,662	(108,668)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3,008	17	148,752	12,104	163,881
Effect of currency exchange rate changes on cash	—	—	—	(959)	(959)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 3,177	$ 13,338	$ 21,932	$ 15,807	$ 54,254
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest	$ 1,533	$ 3,436	$ 384	$ 529	$ 5,882
Income taxes, net of refunds	$ 3,529	$ —	$ —	$ —	$ 3,529

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

17. Industry Segments

Effective with the fourth quarter of 2004, we reorganized our business segments for financial reporting purposes by separating the Global Investment Management business from our geographic regions. This action was taken in an effort to increase our transparency of reporting in light of the growing significance of our Global Investment Management business. This reorganization has reduced revenues and earnings in the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific regions, but has had no impact on consolidated results. Accordingly, we now report our operations through four primary segments. The segments are as follows: (1) Americas, (2) EMEA, (3) Asia Pacific and (4) Global Investment Management.

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

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

Our Global Investment Management business provides investment management services to clients seeking to generate returns and diversification through investments in real estate in the U.S., Europe and Asia.

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

	Three Months Ended March 31,	
	2005	2004
Revenue		
Americas	$ 381,114	$ 318,601
EMEA	102,110	79,826
Asia Pacific	33,875	25,560
Global Investment Management	21,167	17,005
	$ 538,266	$ 440,992
Operating income (loss)		
Americas	$ 33,610	$ 1,106
EMEA	17	(10,109)
Asia Pacific	1,455	(359)
Global Investment Management	1,547	90
	36,629	(9,272)
Equity income (loss) from unconsolidated subsidiaries		
Americas	2,900	1,726
EMEA	(182)	(249)
Asia Pacific	88	295
Global Investment Management	435	754
	3,241	2,526
Interest income	2,445	1,273
Interest expense	13,598	19,645
Loss on extinguishment of debt	4,930	—
Income (loss) before provision (benefit) for income taxes	$ 23,787	$ (25,118)

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

18. New Accounting and Tax Pronouncements

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

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

19. Subsequent Event

In April 2005, we repurchased an additional $10.1 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $1.2 million of premiums in connection with these open market purchases.

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

This Quarterly Report on Form 10-Q for CB Richard Ellis Group, Inc. for the quarter ended March 31, 2005, represents an update to the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2004. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K as well as the unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

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

Macroeconomic Conditions

Economic trends and government policies directly affect our operations as well as global and regional commercial real estate markets generally. These include: overall economic activity and employment growth, interest rate levels, the availability of credit to finance transactions and the impact of tax and regulatory policies. Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can negatively affect the performance of many of our business lines. Weak economic conditions could result in a general decrease in transaction activity and decline in rents, which, in turn, would reduce revenue from property management fees and brokerage commissions derived from property sales and leases. In addition, these conditions could lead to a decline in sales prices as well as a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage brokerage business. If our real estate and mortgage brokerage businesses are negatively impacted, it is likely that our other lines of business would also suffer due to the relationship among our various business lines.

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

Adverse changes in economic conditions would also affect our compensation expense, which is structured to decrease in line with any decrease in revenues. Compensation is our largest expense and the sales and leasing professionals in our largest line of business, advisory services, generally are paid on a commission and bonus basis that correlates with our revenue performance. As a result, the negative effect on our operating margins during difficult market conditions is partially mitigated. In addition, in circumstances when economic conditions are particularly severe, our management also has sought to improve operational performance through cost reduction programs. For example, as economic conditions worsened in 2001, our management team made targeted reductions in our workforce, reduced senior management bonuses, streamlined general and administrative operations and cut capital expenditures and other discretionary operating expenses. As a result of the operating leverage inherent in our business, we were able to reduce our operating expenses by $18.7 million during 2002 as compared to 2001. Notwithstanding these approaches, adverse global and regional economic changes remain one of the most significant risks to our future financial condition and results of operations.

Effects of Prior Acquisitions

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

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures and charges and the costs of integrating the acquired business and its financial and accounting systems into our own. For example, through December 31, 2004, we have incurred $200.9 million of transaction-related expenditures in connection with our acquisition of Insignia in 2003 and $87.6 million of transaction-related expenditures in connection with our acquisition of CB Richard Ellis Services in 2001. Transaction-related expenditures include severance costs, lease termination costs, transaction costs, deferred financing costs and merger-related costs, among others. We incurred our final transaction expenditures with respect to the Insignia Acquisition in the third quarter of 2004. In addition, through March 31, 2005, we have incurred $30.5 million of expenses in connection with the integration of Insignia’s business lines, as well as accounting and other systems, into our own. We expect to incur additional Insignia-related integration expenses of approximately $4.0 million during the remainder of 2005 and approximately $4.0 million during 2006.

International Operations

We have made significant acquisitions of non-U.S. companies and we may acquire additional foreign companies in the future. As we increase our foreign operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our management team generally seeks to mitigate our exposure by balancing assets and liabilities that are denominated in the same currency and by maintaining cash positions outside the United States only at levels necessary for operating purposes. In addition, from time to time we enter into foreign currency exchange contracts to mitigate our exposure to exchange rate changes related to particular transactions and to hedge risks associated with the translation of foreign currencies into U.S. dollars. Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, our management cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more challenging to perform period-to-period comparisons of our reported results of operations.

Our international operations also are subject to, among other things, political instability and changing regulatory environments, which may adversely affect our future financial condition and results of operations. Our management routinely monitors these risks and costs and evaluates the appropriate amount of resources to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

Leverage

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

Our management seeks to mitigate this exposure both through the refinancing of debt when available on attractive terms and through selective repayment and retirement of indebtedness. For example, we refinanced our senior secured credit facilities in October 2003 and again during 2004 to obtain more attractive interest rates and other terms, redeemed $30.0 million in aggregate principal amount of our 16% senior notes in late 2003 and repurchased $21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market during May and June 2004.

In addition, on June 15, 2004 we received aggregate net proceeds of approximately $135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us, in connection with the sale of 7,726,764 shares of our Class A common stock pursuant to the completion of our initial public offering. During June 2004, we used a portion of the net proceeds received from the offering to prepay $15.0 million in principal amount of the term loan under our amended and restated credit agreement and during July 2004, we used the remaining net proceeds we received from the offering to redeem all $38.3 million in aggregate principal amount of our remaining outstanding 16% senior notes and $70.0 million in aggregate principal amount of our 9¾% senior notes. Lastly, to date during 2005, we have repurchased $36.5 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. Our management expects to continue to look for opportunities to reduce our debt in the future.

Notwithstanding the actions described above, however, our level of indebtedness and the operating and financial restrictions in our debt agreements both place constraints on the operation of our business.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include goodwill and other intangible assets, revenue recognition, income taxes and our consolidation policy can be found in our Annual Report on Form 10-K for the year ended December 31, 2004. There have been no material changes to these policies in 2005.

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Basis of Presentation

Significant Acquisitions and Dispositions

On July 23, 2003, pursuant to an amended and restated agreement and plan of merger, dated as of May 28, 2003, by and among CB Richard Ellis Services, CB Richard Ellis Group, Apple Acquisition Corp., a Delaware corporation and wholly owned subsidiary of CB Richard Ellis Services, and Insignia, Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the merger and at the effective time of the merger became a wholly owned subsidiary of CB Richard Ellis Services.

Segment Reporting

Effective with the fourth quarter of 2004, we reorganized our business segments for financial reporting purposes by separating the Global Investment Management business from our geographic regions. This action was taken in an effort to increase our transparency of reporting in light of the growing significance of our Global Investment Management business. This reorganization has reduced revenues and earnings in the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific regions, but has had no impact on consolidated results. The results for the period ended March 31, 2004, have been restated to conform to this new presentation of our business segments.

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

Results of Operations

The following table sets forth items derived from the consolidated statements of operations for the three months ended March 31, 2005 and 2004 presented in dollars and as a percentage of revenue (dollars in thousands):

	Three Months Ended March 31,			
	2005		2004	
Revenue	$538,266	100.0%	$440,992	100.0%
Costs and expenses:				
Cost of services	268,046	49.8	224,222	50.8
Operating, administrative and other	223,221	41.5	199,251	45.2
Depreciation and amortization	10,370	1.9	16,831	3.8
Merger-related charges	—	—	9,960	2.3
Operating income (loss)	36,629	6.8	(9,272)	(2.1)
Equity income from unconsolidated subsidiaries	3,241	0.6	2,526	0.6
Interest income	2,445	0.4	1,273	0.3
Interest expense	13,598	2.5	19,645	4.5
Loss on extinguishment of debt	4,930	0.9	—	—
Income (loss) before provision (benefit) for income taxes	23,787	4.4	(25,118)	(5.7)
Provision (benefit) for income taxes	9,215	1.7	(8,550)	(1.9)
Net income (loss)	$ 14,572	2.7%	$ (16,568)	(3.8)%
EBITDA	$ 50,240	9.3%	$ 10,085	2.3%

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

EBITDA is calculated as follows (dollars in thousands):

	Three Months Ended March 31,	
	2005	2004
Net income (loss)	$ 14,572	$ (16,568)
Add:		
Depreciation and amortization	10,370	16,831
Interest expense	13,598	19,645
Loss on extinguishment of debt	4,930	—
Provision (benefit) for income taxes	9,215	(8,550)
Less:		
Interest income	2,445	1,273
EBITDA	$ 50,240	$ 10,085

Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004

We reported consolidated net income of $14.6 million for the three months ended March 31, 2005 on revenue of $538.3 million as compared to a consolidated net loss of $16.6 million on revenue of $441.0 million for the three months ended March 31, 2004.

Our revenue on a consolidated basis increased by $97.3 million, or 22.1%, as compared to the three months ended March 31, 2004. The strong revenue growth was primarily driven by higher worldwide transaction revenue as well as increased appraisal fees. Additionally, continued low long-term interest rates in the United States have fueled an increase in loan origination fees. Foreign currency translation had a $7.7 million positive impact on total revenue during the three months ended March 31, 2005.

Our cost of services on a consolidated basis increased by $43.8 million, or 19.5%, during the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Foreign currency translation had a $3.6 million negative impact on cost of services during the three months ended

March 31, 2005. Cost of services as a percentage of revenue decreased from 50.8% for the three months ended March 31, 2004 to 49.8% for the three months ended March 31, 2005, primarily driven by a decline in amortization expense related to the broker draw asset acquired in the Insignia Acquisition. As part of the purchase price allocation for the Insignia Acquisition, a broker draw asset was assigned a fair value of $6.6 million during the three months ended March 31, 2004. Based on our management's estimates, we generally derive benefit from brokers participating in our draw program over two years. Accordingly, we estimated that we would derive benefit from the broker draw asset related to Insignia's brokers over two years from the date of the Insignia Acquisition and, accordingly, we are amortizing it on a straight-line basis, which reflects the pattern in which the economic benefits of the broker draw asset are consumed during that period. During the three months ended March 31, 2004, we recorded $2.2 million for the amortization of this broker draw asset, which included a $1.4 million one-time adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003.

Our operating, administrative and other expenses on a consolidated basis were $223.2 million, an increase of $24.0 million, or 12.0%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses, which resulted from our improved operating performance as well as due to headcount increases needed to support our larger business. Our EMEA business segment also incurred higher occupancy costs in the current year. Additionally, total operating expenses were reduced by net foreign currency transaction gains during the three months ended March 31, 2004, while in the current year we experienced net foreign currency transaction losses, which added to total operating expenses. The relative strength of the U.S. dollar, particularly as compared to the Australian dollar, drove the net foreign currency transaction activity in both periods. Finally, foreign currency translation had a $3.8 million negative impact on total operating expenses during the three months ended March 31, 2005.

Our depreciation and amortization expense on a consolidated basis decreased by $6.5 million, or 38.4%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The decrease was largely due to lower amortization expense related to intangibles acquired in the Insignia Acquisition, including a reduction in amortization expense of $6.8 million related to acquired net revenue backlog. As of December 31, 2004, the intangible asset representing the net revenue backlog acquired in the Insignia Acquisition was fully amortized.

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 were attributable to the Insignia Acquisition. We incurred our final merger-related charges associated with the Insignia Acquisition during the quarter ended September 30, 2004.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by $0.7 million, or 28.3%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004, primarily due to the improved overall performance of our equity investments in our Americas business segment and the U.S. region of our Global Investment Management segment. These increases were partially offset by a loss incurred in the Asia region of our Global Investment Management segment.

Our consolidated interest expense was $13.6 million for the three months ended March 31, 2005, a decrease of $6.0 million, or 30.8%, as compared to the three months ended March 31, 2004. This decline was primarily driven by interest savings realized as a result of debt repayments during the period subsequent to the quarter ended March 31, 2004 and continuing throughout 2005. Our management expects to continue to look for opportunities to reduce our debt in the future.

Our loss on extinguishment of debt on a consolidated basis was $4.9 million for the three months ended March 31, 2005. The loss incurred was related to the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the repurchase of $26.4 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market in the first quarter of 2005. We expect to incur additional charges in connection with the continuation of our deleveraging efforts in the future.

Our provision for income taxes on a consolidated basis was $9.2 million for the three months ended March 31, 2005 as compared to a benefit for income taxes of $8.6 million for the three months ended March 31, 2004. Our effective tax rate rose from a 34.0% benefit for the three months ended March 31, 2004 to a 38.7% provision for the three months ended March 31, 2005. The increase in the provision for income taxes is attributable to the significant increase in pre-tax income over 2004. The increase in the effective tax rate is primarily a result of the change in the mix of domestic and foreign earnings.

Segment Operations

The following table summarizes our revenue, costs and expenses, and operating income (loss) by our Americas, EMEA, Asia Pacific and Global Investment Management operating segments for the three months ended March 31, 2005 and 2004 (dollars in thousands):

	Three Months Ended March 31,			
	2005		2004	
Americas				
Revenue	$381,114	100.0%	$318,601	100.0%
Costs and expenses:				
Cost of services	199,957	52.5	173,896	54.6
Operating, administrative and other	140,619	36.9	126,009	39.6
Depreciation and amortization	6,928	1.8	9,973	3.1
Merger-related charges	—	—	7,617	2.4
Operating income	$ 33,610	8.8%	$ 1,106	0.3%
EBITDA	$ 43,438	11.4%	$ 12,805	4.0%
EMEA				
Revenue	$102,110	100.0%	$ 79,826	100.0%
Costs and expenses:				
Cost of services	49,775	48.7	36,225	45.4
Operating, administrative and other	49,894	48.9	46,021	57.7
Depreciation and amortization	2,424	2.4	5,647	7.1
Merger-related charges	—	—	2,042	2.5
Operating income (loss)	$ 17	—	$ (10,109)	(12.7)%
EBITDA	$ 2,259	2.2%	$ (4,711)	(5.9)%
Asia Pacific				
Revenue	$ 33,875	100.0%	$ 25,560	100.0%
Costs and expenses:				
Cost of services	18,314	54.0	14,101	55.2
Operating, administrative and other	13,507	39.9	11,184	43.8
Depreciation and amortization	599	1.8	634	2.5
Operating income (loss)	$ 1,455	4.3%	$ (359)	(1.4)%
EBITDA	$ 2,142	6.3%	$ 570	2.2%
Global Investment Management				
Revenue	$ 21,167	100.0%	$ 17,005	100.0%
Costs and expenses:				
Operating, administrative and other	19,201	90.7	16,037	94.3
Depreciation and amortization	419	2.0	577	3.4
Merger-related charges	—	—	301	1.8
Operating income	$ 1,547	7.3%	$ 90	0.5%
EBITDA	$ 2,401	11.3%	$ 1,421	8.4%

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

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

We do not allocate net interest expense, loss on extinguishment of debt or provision (benefit) for income taxes among our segments. Accordingly, EBITDA for our segments is calculated as follows (dollars in thousands):

	Three Months Ended March 31,	
	2005	2004
Americas		
Operating income	$33,610	$ 1,106
Add:		
Depreciation and amortization	6,928	9,973
Equity income from unconsolidated subsidiaries	2,900	1,726
EBITDA	$43,438	$ 12,805
EMEA		
Operating income (loss)	$ 17	$ (10,109)
Add:		
Depreciation and amortization	2,424	5,647
Equity loss from unconsolidated subsidiaries	(182)	(249)
EBITDA	$ 2,259	$ (4,711)
Asia Pacific		
Operating income (loss)	$ 1,455	$ (359)
Add:		
Depreciation and amortization	599	634
Equity income from unconsolidated subsidiaries	88	295
EBITDA	$ 2,142	$ 570
Global Investment Management		
Operating income	$ 1,547	$ 90
Add:		
Depreciation and amortization	419	577
Equity income from unconsolidated subsidiaries	435	754
EBITDA	$ 2,401	$ 1,421

Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004

Americas

Revenue increased by $62.5 million, or 19.6%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The overall increase was primarily driven by higher transaction revenue and appraisal fees as well as increased loan origination fees, which were fueled by continued low long-term interest rates in the United States.

Cost of services increased by $26.1 million, or 15.0%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004 primarily due to higher commission expense and bonus accruals as a result of the overall increase in revenue. Cost of services as a percentage of revenue decreased from 54.6% for the three months ended March 31, 2004 to 52.5% for the three months ended March 31, 2005, primarily driven by a decline in amortization expense related to the broker draw asset acquired in the Insignia Acquisition. During the three months ended March 31, 2004, we recorded $2.2 million of broker draw amortization, which included a $1.4 million one-time adjustment to correct the amortization taken for the period from the date of the Insignia Acquisition through December 31, 2003. The amortization of the broker draw asset acquired in the Insignia Acquisition reflects the pattern in which the associated economic benefits are consumed, the fair value of which was refined during the three months ended March 31, 2004. The remaining net broker draw asset of $1.1 million will be amortized on a straight-line basis over the four months ended July 31, 2005.

Operating, administrative and other expenses increased $14.6 million, or 11.6%, mainly driven by higher payroll-related costs, including bonuses, as well as increased marketing costs, which primarily resulted from our improved results. Also contributing to the higher payroll-related costs were headcount increases needed to support our larger business. Finally, total operating expenses were reduced by net foreign currency transaction gains during the three months ended March 31, 2004, while in the current year we experienced net foreign currency transaction losses, which added to total operating expenses. The relative strength of the U.S. dollar, particularly as compared to the Australian dollar, drove the net foreign currency transaction activity in both periods.

EMEA

Revenue increased by $22.3 million, or 27.9%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004, primarily driven by higher sales transaction revenue as well as increased consultation and appraisal fees, primarily in the United Kingdom. Foreign currency translation had a $4.6 million positive impact on total revenue during the three months ended March 31, 2005.

Cost of services increased $13.6 million, or 37.4%, mainly as a result of higher producer compensation expense and bonuses, particularly in the United Kingdom, driven by higher revenue. Foreign currency translation had a $2.4 million negative impact on cost of services during the three months ended March 31, 2005.

Operating, administrative and other expenses increased by $3.9 million, or 8.4%, mainly due to higher bonuses in the United Kingdom, which were consistent with improved results. Additionally, occupancy costs were higher in the United Kingdom mainly due to $1.7 million of charges related to vacated facilities. Foreign currency translation had a $2.4 million negative impact on total operating expenses during the three months ended March 31, 2005.

Asia Pacific

Revenue increased by $8.3 million, or 32.5%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The increase was primarily driven by higher business activity levels throughout the region. Foreign currency translation had a $1.1 million positive impact on total revenue during the three months ended March 31, 2005.

Cost of services increased by $4.2 million, or 29.9%, mainly due to higher commissions, which were consistent with higher transaction revenue. Producer compensation expense was also higher, primarily in Australia, New Zealand and China, as a result of headcount increases. Foreign currency translation had a $0.6 million negative impact on cost of services for the three months ended March 31, 2005.

Operating, administrative and other expenses increased by $2.3 million, or 20.8%, primarily due to higher bonuses which were consistent with the improved results throughout the region. Foreign currency translation had a $0.4 million negative impact on total operating expenses during the three months ended March 31, 2005.

Global Investment Management

Revenue increased by $4.2 million, or 24.5%, for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The increase was primarily driven by higher revenues in Japan due to receipt of the first installment of a fee due on the termination of a management agreement.

Operating, administrative and other expenses increased by $3.2 million, or 19.7%, primarily due to higher incentive compensation for key executives related to participation interests in certain real estate investments under management. Foreign currency translation did not have a significant impact on this operating segment during the current year.

Liquidity and Capital Resources

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under the revolving credit facility of our amended and restated credit agreement described below. Included in the capital requirements that we expect to be able to fund during 2005 is approximately $36.0 million of anticipated capital expenditures of which $7.1 million has been funded on or prior to March 31, 2005. The capital expenditures for 2005 are primarily comprised of information technology costs, which are driven largely by computer replacements as well as costs associated with upgrading various servers and systems, and leasehold improvements.

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

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

Our current long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, generally are comprised of two parts. The first is the repayment of the outstanding principal amounts of our long-term indebtedness, including our senior secured term loan in 2010, our 9¾% senior notes in 2010 and our 11¼% senior subordinated notes in 2011. In May and June 2004, we repurchased $21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. During June 2004, we used a portion of the net proceeds we received from our June 15, 2004 initial public offering to prepay $15.0 million in principal amount of the senior secured term loan under our amended and restated credit agreement. During July 2004, we used the remaining net proceeds received from the offering to redeem all $38.3 million in aggregate principal amount of our remaining outstanding 16% senior notes and

$70.0 million in aggregate principal amount of our 9¾% senior notes. To date during 2005, we have repurchased $36.5 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. In the future, we will continue to look for opportunities to reduce our debt. Our management is unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, then our management expects that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. Our management cannot make any assurances that such refinancings or amendments, if necessary, would be available on attractive terms, if at all.

The other primary component of our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, are our obligations related to our deferred compensation plans and our U.K. pension plans. Pursuant to our deferred compensation plans, a select group of our management and other highly-compensated employees have been permitted to defer receipt of some or all of their compensation until future distribution dates and have the deferred amount credited towards specified investment alternatives. Except for deferrals into stock fund units that provide for future issuances of our common stock, the deferrals under the deferred compensation plans represent future cash payment obligations for us. We currently have invested in insurance funds for the purpose of funding over half of our future cash deferred compensation obligations. In addition, upon each distribution under the plans, we receive a corresponding tax deduction for such compensation payment. Our U.K. subsidiaries maintain pension plans with respect to which a limited number of our U.K. employees are participants. Our historical policy has been to fund pension costs as actuarially determined and as required by applicable law and regulations. As of December 31, 2004, based upon actuarial calculations of future benefit obligations under these plans, these plans were in the aggregate approximately $41.9 million underfunded.

Our management expects that any future obligations under our deferred compensation plans and pension plans that are not currently funded will be funded out of our future cash flow from operations.

Historical Cash Flows

Operating Activities

Net cash used in operating activities totaled $59.6 million for the three months ended March 31, 2005, a decrease of $27.1 million as compared to the three months ended March 31, 2004. This overall decline was primarily due to higher collection of receivables, partially offset by higher bonus payments, both of which resulted from the improved operating performance experienced in 2004 versus 2003. Additionally, the improved 2005 first quarter operating results in comparison to the prior year quarter, partially offset by the timing of payments to vendors, also contributed to the variance.

Investing Activities

Net cash used in investing activities totaled $11.2 million for the three months ended March 31, 2005, representing a decrease of $8.6 million as compared to the three months ended March 31, 2004. This decrease was primarily due to costs incurred in 2004 associated with the Insignia Acquisition. Additionally, capital expenditures of $7.1 million were lower than 2004 by $3.9 million.

Financing Activities

Net cash used in financing activities totaled $27.1 million for the three months ended March 31, 2005 as compared to $2.2 million for the three months ended March 31, 2004. The increase was primarily driven by debt repayments made in 2005.

Initial and Secondary Public Offerings

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock. In connection with the IPO, we issued and sold 7,726,764 shares of our Class A common stock and received aggregate net proceeds of approximately $135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 16,273,236 shares of our Class A common stock and received net proceeds of approximately $290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 229,300 shares of our Class A common stock to cover over-allotments of shares by underwriters and received net proceeds of approximately $4.1 million, after deducting underwriting discounts and commissions. We did not receive any of the proceeds from the sale of shares by the selling stockholders on June 15, 2004 and July 14, 2004. Lastly, in December 2004, we completed a secondary public offering that provided further liquidity for some of our stockholders.

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

Indebtedness

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

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

Since 2001, we have maintained a credit agreement with Credit Suisse First Boston, or CSFB, and other lenders to fund strategic acquisitions and to provide for our working capital needs. On April 23, 2004, we entered into an amendment to our previously amended and restated credit agreement that included a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to $30.0 million of our existing indebtedness and provided for the refinancing of all outstanding amounts under our previous credit agreement as well as the amendment and restatement of our credit agreement upon the completion of our initial public offering. On June 15, 2004, in connection with the completion of our IPO, we completed the refinancing of all amounts outstanding under our amended and restated credit agreement and entered into a new amended and restated credit agreement which became effective in connection with such refinancing. On November 15, 2004, we entered into an amendment to our new amended and restated credit agreement (the Credit Agreement), which reduced the interest rate spread of our term loan and increased flexibility on certain restricted payments and investments.

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

Borrowings under the term loan facility bear interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate is the higher of (1) CSFB's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The potential increase of up to $25.0 million for the term loan facility would bear interest either at the same rate as the current rate for the term loan facility or, in some circumstances as described in the Credit Agreement, at a higher or lower rate. During June 2004, we used a portion of the net proceeds we received from our IPO to prepay $15.0 million in principal amount of the term loan facility. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt in the accompanying consolidated balance sheets was $274.1 million and $277.1 million as of March 31, 2005 and December 31, 2004, respectively.

Borrowings under the revolving credit facility bear interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of March 31, 2005 and December 31, 2004, we had no revolving credit facility principal outstanding. As of March 31, 2005, letters of credit totaling $21.1 million were outstanding, which letters of credit primarily relate to our subsidiaries' outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

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

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc., a wholly owned subsidiary of CB Richard Ellis Services, issued $200.0 million in aggregate principal amount of 9¾% senior notes, which are due May 15, 2010. CBRE Escrow, Inc. merged with and into CB Richard Ellis Services, and CB Richard Ellis Services assumed all obligations with respect to the 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes are unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services' current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem $70.0 million in aggregate principal amount, or 35.0%, of our 9¾% senior notes, which also required the payment of a $6.8 million premium and accrued and unpaid interest through the date of redemption. In the event of a change of control (as defined in the indenture governing our 9¾% senior notes), we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was $130.0 million as of March 31, 2005 and December 31, 2004.

In June 2001, in order to partially finance our acquisition of CB Richard Ellis Services, Blum CB Corp. issued $229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately $225.6 million, net of discount. CB Richard Ellis Services assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the merger of Blum CB Corp. with and into CB Richard Ellis Services on July 20, 2001. The 11¼% senior subordinated notes are unsecured senior subordinated obligations of CB Richard Ellis Services and rank equally in right of payment with any of CB Richard Ellis Services' existing and future unsecured senior subordinated indebtedness but are subordinated to any of CB Richard Ellis Services' existing and future senior indebtedness. The 11¼% senior subordinated notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes require semi-annual payments of interest in arrears on June 15 and

December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we were permitted to redeem up to 35.0% of the originally issued amount of the notes at 111¼% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we did not do. In the event of a change of control (as defined in the indenture governing our 11¼% senior subordinated notes), we are obligated to make an offer to purchase the 11¼% senior subordinated notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. In May and June 2004, we repurchased $21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid $3.1 million of premiums in connection with these open market purchases. In January and February 2005, we repurchased an additional $26.4 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $4.0 million of premiums in connection with these open market purchases. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $179.0 million and $205.0 million as of March 31, 2005 and December 31, 2004, respectively. In April 2005, we repurchased an additional $10.1 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $1.2 million of premiums in connection with these open market purchases.

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

From time to time, Moody’s Investor Service and Standard & Poor’s Ratings Service rate our outstanding senior secured term loan, our 9¾% senior notes and our 11¼% senior subordinated notes. On April 11, 2005, Moody’s Investor Service upgraded its rating of our senior secured term loan and 9¾% senior notes from B1 to Ba3 as well as our 11¼% senior subordinated notes from B3 to B1, and raised its rating outlook to positive. Neither the Moody’s nor the Standard & Poor’s ratings impact our ability to borrow under our Credit Agreement. However, these ratings may impact our ability to borrow under new agreements in the future and the interest rates of any such future borrowings.

Our wholly owned subsidiary, L.J. Melody & Company, has a credit agreement with Washington Mutual Bank, FA, or WaMu, for the purpose of funding mortgage loans that will be resold. This credit agreement was previously with Residential Funding Corporation, or RFC. On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement (warehouse line of credit), which provides for a warehouse line of credit of up to $250.0 million, bears interest at one-month LIBOR plus 1.0% and expires on September 1, 2005. This agreement provides for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On December 13, 2004, we and RFC entered into the First Amendment to the Fifth Amended and Restated Warehousing Credit and Security Agreement whereby the warehousing commitment was temporarily increased to $315.0 million, effective December 20, 2004. This temporary increase was for the period from December 20, 2004 to and including January 20, 2005. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. We expect that prior to September 1, 2005, or within thirty days after delivery of any termination notice by WaMu, L.J. Melody will be able to reach a satisfactory amendment to extend the term of the agreement with WaMu or to enter into an agreement with another third party to provide substitute financing arrangements for the purpose of funding mortgage loans. However, if L.J. Melody is unable to do so, the business and results of operations of our mortgage loan origination and servicing line of business may be adversely affected. During the quarter ended March 31, 2005, we had a maximum of $138.2 million warehouse line of credit principal outstanding. As of

March 31, 2005 and December 31, 2004, we had a $43.8 million and a $138.2 million warehouse line of credit outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $43.8 million and $138.2 million of mortgage loans held for sale (warehouse receivable), which represented mortgage loans funded through the line of credit that, while committed to be purchased, had not yet been purchased as of March 31, 2005 and December 31, 2004, respectively, which are also included in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995, which significantly expanded our Global Investment Management segment, we issued approximately $20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are secured by letters of credit equal to approximately 50% of the outstanding balance at December 31, 2004. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our Credit Agreement. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.8 million and $12.1 million as of March 31, 2005 and December 31, 2004, respectively.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the U.K., 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, 2005 and December 31, 2004, $8.4 million and $8.5 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

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

Deferred Compensation Plan Obligations

We have two deferred compensation plans, one of which has been frozen and is no longer accepting deferrals, which we refer to as the Old DCP, and one of which became effective on August 1, 2004 and began accepting deferrals on August 13, 2004, which we refer to as the New DCP. Because a substantial majority of the deferrals under both the Old DCP and the New DCP have a distribution date based upon the end of the relevant participant's employment with us, we have an ongoing obligation to make distributions to these participants as they leave our employment. In addition, participants may receive unscheduled in-service withdrawals subject to a 7.5% penalty. As the level of employee departures or in-service distributions is not predictable, the timing of these obligations also is not predictable. Accordingly, we may face significant unexpected cash funding obligations in the future if a larger number of our employees take in-service distributions or leave our employment than we expect. The deferred compensation liability in the accompanying consolidated balance sheets was $171.8 million and $166.7 million at March 31, 2005 and December 31, 2004, respectively.

Old DCP

Prior to amending the Old DCP as discussed below, each participant in the Old DCP was allowed to defer a portion of his or her compensation for distribution generally either after his or her employment with us ends or on a future date at least three years after the deferral election date. The investment alternatives available to participants include two interest index funds and an insurance fund in which gains and losses on deferrals are measured by one or more of approximately 80 mutual funds. Distributions with respect to the interest index and insurance fund accounts are made by us in cash. In addition, prior to July 2001, participants were entitled to invest their deferrals in stock fund units that are distributed as shares of our Class A common stock. As of March 31, 2005, there were 1,692,442 outstanding stock fund units under the Old DCP, all of which were vested.

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

Prior to our initial public offering, all shares held by our current and former employees and consultants, including any shares that such employees and consultants are entitled to receive as distributions with respect to stock fund units in the Old DCP, were subject to transfer restrictions. In connection with our initial public offering, we waived all of these transfer restrictions. As a result, all of these shares, including any shares received as future distributions with respect to stock fund units in the Old DCP, may be sold, subject to applicable securities law requirements. Shortly after our initial public offering, we filed a registration statement on Form S-8 that registered, among other things, the shares of Class A common stock to be distributed in the future with respect to stock fund units in the Old DCP.

New DCP

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

Pension Liability

Our subsidiaries based in the United Kingdom maintain two defined benefit pension plans to provide retirement benefits to existing and former employees participating in the plans. With respect to these plans, our historical policy has been to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm and as required by applicable laws and regulations. Our contributions to these plans are invested and, if these investments do not perform in the future as well as we expect, we will be required to provide additional funding to cover the shortfall. The pension liability in the accompanying consolidated balance sheets was $27.5 million and $27.9 million at March 31, 2005 and December 31, 2004, respectively. We expect to contribute a total of $5.3 million to fund our pension plan for the year ended December 31, 2005, of which $1.6 million was funded as of March 31, 2005.

Other Obligations and Commitments

We had letters of credit totaling $3.6 million as of March 31, 2005, excluding letters of credit related to our outstanding indebtedness and operating leases. Approximately $2.8 million of these letters of credit were issued pursuant to the terms of a purchase agreement with Island Fund I LLC. The remaining $0.8 million outstanding letter of credit is a Fannie Mae letter of credit executed by L.J. Melody. The outstanding letters of credit as of March 31, 2005 expire at varying dates through July 23, 2005. However, we are obligated to renew the letters of credit related to the Island purchase agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling $8.5 million as of March 31, 2005, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae. Approximately $3.6 million of the guarantees are related to investment activity that is scheduled to expire on September 1, 2008. The guarantee related to the Island purchase agreement expired on September 15, 2004 and was subsequently extended until March 31, 2006. Currently, renewals, modifications and extensions of such loan may be made without our consent, but the $1.3 million amount of our Insignia guarantee related to such loan may not be increased without our consent in connection with any such renewal, modification or extension. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of March 31, 2005, we had committed $16.3 million to fund future co-investments all of which is expected to be funded during 2005. In addition to required future capital contributions, some of the co-investment entities may request additional capital from us and our subsidiaries holding investments in those assets and the failure to provide these contributions could have adverse consequences to our interests in these investments.

Seasonality

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

Derivatives and Hedging Activities

In the normal course of business, we sometimes utilize derivative financial instruments in the form of foreign currency exchange forward contracts to mitigate foreign currency exchange exposure resulting from inter-company loans. We do not engage in any speculative activities with respect to foreign currency. At March 31, 2005, we had foreign currency exchange forward contracts with an aggregate notional amount of approximately $6.0 million, which expire on various dates through December 30, 2005. The net impact on our earnings for the three months ended March 31, 2005 resulting from the unrealized gains and/or losses on the foreign currency exchange forward contracts was not significant. On April 19, 2005, we entered into an option agreement to purchase an aggregate notional amount of 25.0 million British pounds sterling, which will expire on December 28, 2005. On April 22, 2005, we entered into additional foreign currency exchange forward contracts with an aggregate notional amount of approximately $17.0 million, which expire on various dates through December 31, 2005. The net impact on our earnings resulting from gains and/or losses on our option agreement as well as our additional foreign currency exchange forward contract is not expected to be material.

We also enter into loan commitments that relate to the origination or acquisition of commercial mortgage loans that will be held for resale. Statement of Financial Accountings Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" requires that these commitments be recorded at their relative fair values as derivatives. The net impact on our financial position for the three months ended March 31, 2005 resulting from these derivative contracts was not significant.

Litigation

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 that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

New Accounting and Tax Pronouncements

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

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

Forward-Looking Statements

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

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

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

- changes in general economic and business conditions;
- an economic downturn in the California and New York real estate markets;
- the failure of properties managed by us to perform as anticipated;
- our ability to compete;
- changes in social, political and economic conditions in the foreign countries in which we operate;
- acts of terrorism;
- foreign currency fluctuations;

- our ability to complete future acquisitions on favorable terms;
- integration issues and costs relating to acquired businesses;
- significant variability in our results of operations among quarters;
- our substantial leverage and debt service obligations and ability to incur additional indebtedness;
- our ability to generate a sufficient amount of cash to satisfy working capital requirements and to service our existing and future indebtedness;
- the success of our co-investment and joint venture activities;
- our ability to retain our senior management and attract and retain qualified and experienced employees;
- our ability to comply with the laws and regulations applicable to real estate brokerage and mortgage transactions;
- our exposure to liabilities in connection with real estate brokerage and property management activities;
- changes in the key components of revenue growth for large commercial real estate services companies;
- reliance of companies on outsourcing for their commercial real estate needs;
- the ability of L.J. Melody to amend, or replace, on satisfactory terms its warehouse line of credit agreement;
- our ability to leverage our global services platform to maximize and sustain long-term cash flow;
- our ability to maximize cross-selling opportunities;
- our ability to achieve annual cash interest savings;
- the effect of implementation of new tax and accounting rules and standards; and
- the other factors described in our Annual Report on Form 10-K under the heading "Business—Factors Affecting Our Future Performance" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies."

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information in this section should be read in connection with the information on market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2004. 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.

During the three months ended March 31, 2005, approximately 31.3% of our business was transacted in local currencies of foreign countries, the majority of which includes the Euro, the British pound sterling, the Hong Kong dollar, the Singapore dollar and the Australian dollar. We attempt to manage our exposure primarily by balancing assets and liabilities and maintaining cash positions in foreign currencies only at levels necessary for operating purposes. We routinely monitor our transaction exposure to currency exchange rate changes and sometimes enter into foreign currency exchange forward and option contracts to limit our exposure, as appropriate. We do not engage in any speculative activities with respect to foreign currency. At March 31, 2005, we had foreign currency exchange forward contracts with an aggregate notional amount of approximately $6.0 million, which expire on various dates through December 30, 2005. The net impact on our earnings for the three months ending March 31, 2005 resulting from the unrealized gains and/or losses on the foreign currency exchange forward contracts was not significant. On April 19, 2005, we entered into an option agreement to purchase an aggregate notional amount of 25.0 million British pounds sterling, which expires on December 28, 2005. On April 22, 2005, we entered into additional foreign currency exchange forward contracts with an aggregate notional amount of approximately $17.0 million, which expire on various dates through December 31, 2005. The net impact on our earnings resulting from gains and/or losses on our option agreement as well as additional foreign currency exchange forward contracts is not expected to be material.

We utilize sensitivity analyses to assess the potential effect of our variable rate debt. If interest rates were to increase by 47 basis points, which would comprise approximately 10% of the weighted average interest rates of our outstanding variable rate debt at March 31, 2005, the net impact would be a decrease of $0.4 million on pre-tax income and cash provided by operating activities for the three months ended March 31, 2005.

Based on dealers' quotes at March 31, 2005, the estimated fair values of our 9¾% senior notes and our 11¼% senior subordinated notes were $146.9 million and $202.7 million, respectively. Estimated fair values for the term loan under the senior secured credit facilities and the remaining long-term debt are not presented because we believe that they are not materially different from book value, primarily because the substantial majority of this debt is based on variable rates that approximate terms that we believe could be obtained at March 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

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

No change in our internal control over financial reporting occurred during the fiscal quarter ended March 31, 2005 that has materially affected, or is likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 that may result from the disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.3	Amended and Restated 2004 Stock Incentive Plan of CB Richard Ellis Group, Inc.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of the 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32	Certifications by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CB RICHARD ELLIS GROUP, INC.

Date: May 10, 2005	/s/ KENNETH J. KAY **Kenneth J. Kay** **Chief Financial Officer (principal financial officer)**
Date: May 10, 2005	/s/ GIL BOROK **Gil Borok** **Global Controller (principal accounting officer)**

EXHIBIT 10.3

AMENDED AND RESTATED
2004 STOCK INCENTIVE PLAN
OF
CB RICHARD ELLIS GROUP, INC.

Adopted by Board on April 1, 2004

Approved by Stockholders on April 21, 2004

Amended and Restated by Board on April 14, 2005

Termination Date: March 31, 2014

1. PURPOSES.

(a) *Eligible Stock Award Recipients.* The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(b) *Available Stock Awards*. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Stock Awards including, but not limited to: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Restricted Stock Bonuses, (iv) Restricted Stock Purchase Rights, (v) Stock Appreciation Rights, (vi) Phantom Stock Units, (vii) Restricted Stock Units, (viii) Performance Share Bonuses, and (ix) Performance Share Units.

(c) *General Purpose*. The Company, by means of this new Plan, which is intended to replace the Company's 2001 Stock Incentive Plan ("Predecessor Plan"), seeks to provide incentives for the group of persons eligible to receive Stock Awards to exert maximum efforts for the success of the Company and its Affiliates. Stock Awards granted under the Predecessor Plan shall continue to be governed by the terms of the Predecessor Plan in effect on the date of grant of such award.

2. DEFINITIONS.

(a) "Affiliate" means generally with respect to the Company, any entity directly, or indirectly through one or more intermediaries, controlling or controlled by (but not under common control with) the Company. Solely with respect to the granting of any Incentive Stock Options, Affiliate means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "Beneficial Owner" means the definition given in Rule 13d-3 of the Exchange Act.

(c) "Blum Capital" means Blum Capital Partners, L.P., a Delaware limited partnership.

(d) "Board" means the Board of Directors of the Company.

(e) "Change of Control" means the occurrence of any of the following events:

(i) The sale, exchange, lease or other disposition of all or substantially all of the assets of the Company to a person or group of related persons, as such terms are defined or described in Sections 3(a)(9) and 13(d)(3) of the Exchange Act (other than Blum Capital and its affiliates, Freeman Spogli and their affiliates or any group in which the foregoing is a member), that will continue the business of the Company in the future;

(ii) A merger or consolidation involving the Company in which the voting securities of the Company owned by the shareholders of the Company immediately prior to such merger or consolidation do not represent, after conversion if applicable, more than fifty percent (50%) of the total voting power of the surviving controlling entity outstanding immediately after such merger or consolidation; provided that any person who (1) was a beneficial owner (within the meaning of Rules 13d-3 and 13d-5 promulgated under the Exchange Act) of the voting securities of the Company immediately prior to such merger or consolidation, and (2) is a beneficial owner of more than 20% of the securities of the Company immediately after such merger or consolidation, shall be excluded from the list of "shareholders of the Company immediately prior to such merger or consolidation" for purposes of the preceding calculation;

(iii) Any person or group (other than Blum Capital and its affiliates, Freeman Spogli and their affiliates or any group in which any of the foregoing is a member) is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the total voting power of the voting stock of the Company (including by way of merger, consolidation or otherwise) and the representatives of Blum Capital and its affiliates, Freeman Spogli and their affiliates or any group in which any of the foregoing is a member, individually or in the aggregate, cease to have the ability to elect a majority of the Board (for the purposes of this clause (iii), a member of a group will not be considered to be the Beneficial Owner of the securities owned by other members of the group);

(iv) During any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board (together with any new Directors whose election by such Board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the Directors of the Company then still in office, who were either Directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board then in office; or

(v) A dissolution or liquidation of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended.

(g) "Committee" means a committee of one or more members of the Board (or other individuals who are not members of the Board to the extent allowed by law) appointed by the Board in accordance with Subsection 3(c) of the Plan.

(h) "Common Stock" means the Class A common shares of the Company.

(i) "Company" means CB Richard Ellis Group, Inc., a Delaware corporation.

(j) "Consultant" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors who are not compensated by the Company for their services as Directors or Directors who are compensated by the Company solely for their services as Directors.

(k) "Continuous Service" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by the Company or an Affiliate, including sick leave, military leave or any other personal leave.

(l) “Covered Employee” means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to shareholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(m) “Director” means a member of the Board of Directors of the Company.

(n) “Disability” means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code for all Incentive Stock Options. For all other Stock Awards, “Disability” means physical or mental incapacitation such that for a period of six (6) consecutive months or for an aggregate of nine (9) months in any twenty-four (24) consecutive month period, a person is unable to substantially perform his or her duties. Any question as to the existence of that person’s physical or mental incapacitation as to which the person or person’s representative and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to the person and the Company. If the person and the Company or an Affiliate cannot agree as to a qualified independent physician, each shall appoint such a physician and those two (2) physicians shall select a third (3rd) who shall make such determination in writing. The determination of Disability made in writing to the Company or an Affiliate and the person shall be final and conclusive for all purposes of the Stock Awards.

(o) “Eligible Director” means any Director who: (i) is not employed by the Company and (ii) does not receive a financial management fee from the Company and is not employed by any entity that receives such a fee.

(p) “Employee” means any person employed by the Company or an Affiliate. Service as a Director or compensation by the Company or an Affiliate solely for services as a Director shall not be sufficient to constitute “employment” by the Company or an Affiliate.

(q) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(r) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the arithmetic mean of the high and the low selling prices of the Common Stock as reported on such date on the Composite Tape of the principal national securities exchange on which the Common Stock is listed or admitted to trading, or if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which such the Common Stock is listed or admitted to trading, or, if the Common Stock is not listed or admitted on a national securities exchange, the arithmetic mean of the closing bid price and per share closing ask price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or if no sale of Common Stock shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealers Automated Quotation System on such date, then the immediately preceding date on which sales of the Common Stock have been so reported or quoted shall be used.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(iii) Notwithstanding the foregoing, for non-discretionary Stock Awards granted to Eligible Directors as of the effective date of the Plan as set forth in Section 16 hereof and as described below in Section 7, “Fair Market Value” shall mean the price at which the Company sells Company Common Stock to the public pursuant to a registration statement filed with the U.S. Securities and Exchange Commission on or around such effective date.

(s) “Freeman Spogli” means FS Equity Partners III, L.P. and FS Equity Partners International, L.P., collectively.

(t) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(u) “Non-Employee Director” means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (“Regulation S-K”)), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(v) “Nonstatutory Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

(w) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(x) “Option” means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(y) “Option Agreement” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(z) “Optionholder” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(aa) “Outside Director” means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an “affiliated corporation” at any time and is not currently receiving direct or indirect remuneration from the Company or an “affiliated corporation” for services in any capacity other than as a Director; or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

(bb) “Participant” means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(cc) “Performance Share Bonus” means a grant of shares of the Company’s Common Stock not requiring a Participant to pay any amount of monetary consideration, and subject to the provisions of Subsection 8(f) of the Plan.

(dd) “Performance Share Unit” means the right to receive one (1) share of the Company’s Common Stock at the time the Performance Share Unit vests, with the further right to elect to defer receipt of shares of Common Stock otherwise deliverable upon the vesting of an award of Performance Share Units. These Performance Share Units are subject to the provisions of Subsection 8(g).

(ee) “Phantom Stock Unit” means the right to receive the value of one (1) share of the Company’s Common Stock, subject to the provisions of Subsection 8(d) of the Plan.

(ff) “Plan” means this Amended and Restated 2004 Stock Incentive Plan of CB Richard Ellis Group, Inc.

(gg) “Restricted Stock Bonus” means a grant of shares of the Company’s Common Stock not requiring a Participant to pay any amount of monetary consideration, and subject to the provisions of Subsection 8(a) of the Plan.

(hh) “Restricted Stock Purchase Right” means the right to acquire shares of the Company’s Common Stock upon the payment of the agreed-upon monetary consideration, subject to the provisions of Subsection 8(b) of the Plan.

(ii) “Restricted Stock Unit” means the right to receive one (1) share of the Company’s Common Stock at the time the Restricted Stock Unit vests, with the further right to elect to defer receipt of shares of Common Stock otherwise deliverable upon the vesting of an award of restricted stock. These Restricted Stock Units are subject to the provisions of Subsection 8(e).

(jj) “Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule l6b-3, as in effect from time to time.

(kk) “Securities Act” means the Securities Act of 1933, as amended.

(ll) “Securities Registration Date” means the first date upon which any equity security of the Company is registered under the Exchange Act.

(mm) “Stock Appreciation Right” means the right to receive an amount equal to the Fair Market Value of one (1) share of the Company’s Common Stock on the day the Stock Appreciation Right is redeemed, reduced by the deemed exercise price or base price of such right.

(nn) “Stock Award” means any Option award, Restricted Stock Bonus award, Restricted Stock Purchase Right award, Stock Appreciation Right award, Phantom Stock Unit award, Restricted Stock Unit award, Performance Share Bonus award, Performance Share Unit award, or other stock-based award. These Awards may include, but are not limited to those listed in Subsection 1(b).

(oo) “Ten Percent Shareholder” means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) *Administration by Board*. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in Subsection 3(c).

(b) *Powers of Board*. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 14 of the Plan.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary, desirable, convenient or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(v) To adopt sub-plans and/or special provisions applicable to Stock Awards regulated by the laws of a jurisdiction other than and outside of the United States. Such sub-plans and/or special provisions may take precedence over other provisions of the Plan, with the exception of Section 4 of the Plan, but unless otherwise superseded by the terms of such sub-plans and/or special provisions, the provisions of the Plan shall govern.

(c) *Delegation to Committee.*

(i) *General*. The Board may delegate administration of the Plan to a Committee or Committees of one or more individuals, and the term “Committee” shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee, as applicable), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) *Committee Composition when Common Stock is Publicly Traded* At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (1) delegate to a committee of one or more individuals who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (2) delegate to a committee of one or more individuals who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are either (a) not then subject to Section 16 of the Exchange Act or (b) receiving a Stock Award as to which the Board or Committee elects not to comply with Rule 16b-3 by having two or more Non-Employee Directors grant such Stock Award.

(d) *Effect of Board’s Decision*. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) *Share Reserve*. Subject to the provisions of Section 13 of the Plan relating to adjustments upon changes in Common Stock, the maximum aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards shall not exceed two and a half million (2,500,000) shares, provided that each Option or SAR granted will reduce the share reserve by one (1) share upon exercise or redemption and each share or unit granted pursuant to other Stock Awards will reduce the share reserve by two and a quarter (2.25) shares upon issuance of shares of Common Stock pursuant to such Stock Award. To the extent that a distribution pursuant to a Stock Award is made in cash, the share reserve shall remain unaffected.

(b) *Reversion of Shares to the Share Reserve*. If any Stock Award shall for any reason (i) expire or otherwise terminate, in whole or in part, without having been exercised or redeemed in full, (ii) be reacquired by the Company prior to vesting, or (iii) be repurchased at cost by the Company prior to vesting, the shares of Common Stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan. To the extent that a Stock Appreciation Right or Phantom Stock Unit granted under the Plan is redeemed by payment in cash rather than shares of Common Stock, the shares of Common Stock subject to the redeemed portion of the Stock Appreciation Right shall revert to and again become available for issuance under the Plan.

(c) *Source of Shares*. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) *Eligibility for Specific Stock Awards*. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) *Ten Percent Shareholders*. A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) *Section 162(m) Limitation*. Subject to the provisions of Section 13 of the Plan relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted Options or Stock Appreciation Rights covering more than seven hundred and fifty thousand (750,000) shares of Common Stock during any fiscal year.

(d) *Consultants*.

(i) A Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.

(ii) Form S-8 generally is available to consultants and advisors only if (i) they are natural persons; (ii) they provide bona fide services to the issuer, its parents, its majority owned subsidiaries; and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) *Term*. Subject to the provisions of Subsection 5(b) of the Plan regarding Ten Percent Shareholders, no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) *Exercise Price of an Incentive Stock Option*. Subject to the provisions of Subsection 5(b) of the Plan regarding Ten Percent Shareholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) *Exercise Price of a Nonstatutory Stock Option*. The exercise price of each Nonstatutory Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) *Consideration*. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash or by check at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option): (1) by delivery to the Company of other Common Stock, (2) pursuant to a "same day sale" program, or (3) by some combination of the foregoing. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(e) *Transferability of an Incentive Stock Option*. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) *Transferability of a Nonstatutory Stock Option*. A Nonstatutory Stock Option shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) *Vesting Generally*. Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Board. The vesting provisions of individual Options may vary. Generally, so long as the Optionholder remains in continuous service with the Company, an Option shall vest and become exercisable with respect to 20% of the shares subject to the Option on each anniversary of the date of grant over a five-year period. The provisions of this Subsection 6(g) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(h) *Termination of Continuous Service*. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) *Extension of Termination Date*. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act or other applicable securities law, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in the

Option Agreement or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) *Disability of Optionholder*. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) *Death of Optionholder*. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death pursuant to Subsection 6(e) or 6(f) of the Plan, but only within the period ending on the earlier of (l) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) *Early Exercise*. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Any unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

7. NON-DISCRETIONARY STOCK AWARDS FOR ELIGIBLE DIRECTORS.

In addition to any other Stock Awards that Eligible Directors may be granted on a discretionary basis under the Plan, each Eligible Director of the Company shall be automatically granted without the necessity of action by the Board, the following option grants and restricted stock bonuses, as described in Subsections 7(a) and 7(b) below:

(a) *Annual Stock Option Grant*. An annual grant of stock options shall automatically be made to each Eligible Director. The number of shares of Common Stock covered by each stock option shall be equal to $50,000 divided by the Fair Market Value of the Company's Common Stock on the date of grant, rounded to the nearest whole number. The exercise price of each option shall be one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the option on the date the option is granted. The maximum term of the options shall be seven (7) years and the options shall vest and become exercisable at a rate of one-twelfth ($1/12^{th}$) of the grant per quarter over a period of three (3) years. In the event of involuntary termination (such as death, Disability, or non-reelection), vested shares must be exercised within one (1) year of termination, but no later than seven (7) years from the date of grant. In the event of resignation or other voluntary termination, the options must be exercised within three (3) months of termination. In the event of removal, such Options shall lapse automatically. Except as otherwise expressly described in this subsection, the terms are the same as those for the standard form of Nonstatutory Stock Options in use by the Company at the time of grant. This grant shall be pro-rated as provided in Subsection 7(c) below.

(b) *Annual Restricted Stock Bonus*. An annual grant of restricted stock shall automatically be made in an amount equal to the number of shares (rounded to the nearest whole number) which represents a Fair Market

Value of $25,000 at the time of the grant. The restricted stock granted shall vest in full on the third (3rd) anniversary of the date of the grant (the "Vesting Date") provided that the Eligible Director has served continuously since the grant. If an Eligible Director leaves the Board of Directors as a result of the Eligible Director's death, Disability, retirement, or failure to be renominated or reelected to the Board, any unvested restricted stock shall become vested immediately prior to such departure in the amount of one-third (1/3) of the total number of shares subject to the grant for each full year the Eligible Director served on the Board of Directors after the date of grant. (For purposes of this subsection, "retirement" is defined as resignation after an Eligible Director reaches sixty-five 65 years of age.) This grant shall be pro-rated as provided in Subsection 7(c) below.

(c) *Pro-Ration of Grants*. Stock option and restricted stock bonus grants to Eligible Directors shall be pro-rated based on the "Commencement Date" of the Eligible Director to the end of the pro-ration cycle. (For purposes of this Section 7, the annual pro-ration cycle shall end on May 15th each year.) For new Eligible Directors, the "Commencement Date" shall be the date the Eligible Director is elected to the Board. For existing Board members, the "Commencement Date" shall be the date on which the Plan is approved by the Board. For an existing Board member who becomes an Eligible Director as a result of a change in status, the "Commencement Date" shall be the date the status of the Director changes.

The pro-ration of the option grants to each Eligible Director shall be calculated as the number of shares covered by the option grant to him/her as described above in Subsection 7(a) multiplied by the following fraction: the number of days from the Commencement Date of that Eligible Director's service until the next May 15th divided by 365 days. The pro-ration of the restricted stock grants to each Eligible Director shall be calculated as the number of shares covered by the restricted stock grant to him/her as described above in Subsection 7(b) multiplied by the following fraction: the number of days from the Commencement Date of that Eligible Director's service until the next May 15th divided by 365 days.

For avoidance of doubt, calculations of pro-ration shall not be altered by the date on which a Stock Award is granted. The pro-ration calculation for an individual Eligible Director shall be applied to his or her Stock Awards granted within the pro-ration cycle with respect to which the calculation is being made.

(d) *Date of Grants.* For purposes of the Plan, the first annual compensation and equity grants shall be based on the one (1) month anniversary of the date the Eligible Director is elected to the Board, or in the case of existing Board members, the effective date of the Plan as described in Section 16 below. The date of subsequent grants shall be based on the first Board meeting following each Annual Meeting of Shareholders, and will require at least three (3) months of prior service as an Eligible Director. In the case of an existing Board member who becomes an Eligible Director as a result of a change in status, the grant will be as of the one (1) month anniversary of the date the status of the Eligible Director changes.

8. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) *Restricted Stock Bonus Awards.* Each Restricted Stock Bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Bonus agreements may change from time to time, and the terms and conditions of separate Restricted Stock Bonus agreements need not be identical, but each Restricted Stock Bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) *Consideration*. A Restricted Stock Bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) *Vesting*. Vesting shall generally be based on the Participant's Continuous Service. Shares of Common Stock awarded under the Restricted Stock Bonus agreement shall be subject to a share reacquisition right in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) *Termination of Participant's Continuous Service*. In the event a Participant's Continuous Service terminates, the Company shall reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Restricted Stock Bonus agreement.

(iv) *Transferability*. Rights to acquire shares of Common Stock under the Restricted Stock Bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Bonus agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Restricted Stock Bonus agreement remains subject to the terms of the Restricted Stock Bonus agreement.

(b) *Restricted Stock Purchase Rights*. Each Restricted Stock Purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the Restricted Stock Purchase agreements may change from time to time, and the terms and conditions of separate Restricted Stock Purchase agreements need not be identical, but each Restricted Stock Purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) *Purchase Price*. The purchase price under each Restricted Stock Purchase agreement shall be such amount as the Board shall determine and designate in such Restricted Stock Purchase agreement. The purchase price shall not be less than eighty-five percent (85%) of the Common Stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(ii) *Consideration*. The purchase price of Common Stock acquired pursuant to the Restricted Stock Purchase agreement shall be paid either: (i) in cash or by check at the time of purchase or (ii) in any other form of legal consideration that may be acceptable to the Board in its discretion.

(iii) *Vesting*. The Board shall determine the criteria under which shares of Common Stock under the Restricted Stock Purchase agreement may vest; the criteria may or may not include performance criteria or Continuous Service. Shares of Common Stock acquired under the Restricted Stock Purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) *Termination of Participant's Continuous Service*. In the event a Participant's Continuous Service terminates, the Company may repurchase any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Restricted Stock Purchase agreement.

(v) *Transferability*. Rights to acquire shares of Common Stock under the Restricted Stock Purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Purchase agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Restricted Stock Purchase agreement remains subject to the terms of the Restricted Stock Purchase agreement.

(c) *Stock Appreciation Rights*. Two types of Stock Appreciation Rights ("SARs") shall be authorized for issuance under the Plan: (i) stand-alone SARs and (ii) stapled SARs.

(i) *Stand-Alone SARs*. The following terms and conditions shall govern the grant and redeemability of stand-alone SARs:

(a) The stand-alone SAR shall cover a specified number of underlying shares of Common Stock and shall be redeemable upon such terms and conditions as the Board may establish. Upon redemption of the stand-alone SAR, the holder shall be entitled to receive a distribution from the Company in an amount equal to the excess of (i) the aggregate Fair Market Value (on the redemption date) of the shares of Common Stock underlying the redeemed right over (ii) the aggregate base price in effect for those shares.

(b) The number of shares of Common Stock underlying each stand-alone SAR and the base price in effect for those shares shall be determined by the Board in its sole discretion at the time the stand-alone SAR is granted. In no event, however, may the base price per share be less than eighty-five percent (85%) of the Fair Market Value per underlying share of Common Stock on the grant date.

(c) The distribution with respect to any redeemed stand-alone SAR may be made in shares of Common Stock valued at Fair Market Value on the redemption date, in cash, or partly in shares and partly in cash, as the Board shall in its sole discretion deem appropriate.

(ii) *Stapled SARs*. The following terms and conditions shall govern the grant and redemption of stapled SARs:

(a) Stapled SARs may only be granted concurrently with an Option to acquire the same number of shares of Common Stock as the number of such shares underlying the stapled SARs.

(b) Stapled SARs shall be redeemable upon such terms and conditions as the Board may establish and shall grant a holder the right to elect among (i) the exercise of the concurrently granted Option for shares of Common Stock, whereupon the number of shares of Common Stock subject to the stapled SARs shall be reduced by an equivalent number, (ii) the redemption of such stapled SARs in exchange for a distribution from the Company in an amount equal to the excess of the Fair Market Value (on the redemption date) of the number of vested shares which the holder redeems over the aggregate base price for such vested shares, whereupon the number of shares of Common Stock subject to the concurrently granted Option shall be reduced by any equivalent number, or (iii) a combination of (i) and (ii).

(c) The distribution to which the holder of stapled SARs shall become entitled under this Section 8 upon the redemption of stapled SARs as described in Section 8(c)(ii)(b) above may be made in shares of Common Stock valued at Fair Market Value on the redemption date, in cash, or partly in shares and partly in cash, as the Board shall in its sole discretion deem appropriate.

(d) *Phantom Stock Units*. The following terms and conditions shall govern the grant and redeemability of Phantom Stock Units:

(i) Phantom Stock Unit awards shall be redeemable by the Participant to the Company upon such terms and conditions as the Board may establish. The value of a single Phantom Stock Unit shall be equal to the Fair Market Value of a share of Common Stock, unless the Board otherwise provides in the terms of the Stock Award Agreement.

(ii) The distribution with respect to any exercised Phantom Stock Unit award may be made in shares of Common Stock valued at Fair Market Value on the redemption date, in cash, or partly in shares and partly in cash, as the Board shall in its sole discretion deem appropriate.

(e) *Restricted Stock Units*. The following terms and conditions shall govern the grant and redeemability of Restricted Stock Units:

A Restricted Stock Unit is the right to receive one (1) share of the Company's Common Stock at the time the Restricted Stock Unit vests. Participants may elect to defer receipt of shares of Common Stock otherwise deliverable upon the vesting of an award of restricted stock. An election to defer such delivery shall be irrevocable and shall be made in writing on a form acceptable to the Company. The election form shall be filed prior to the vesting date of such restricted stock in a manner determined by the Board. When the Participant vests in such restricted stock, the Participant will be credited with a number of Restricted Stock Units equal to the number of shares of Common Stock for which delivery is deferred. Restricted Stock Units shall be paid by delivery of shares of Common Stock in accordance with the timing and manner of payment elected by the Participant on his or her election form, or if no deferral election is made, as soon as administratively practicable following the vesting of the Restricted Stock Unit.

Each Restricted Stock Unit agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit agreements need not be identical, but each Restricted Stock Unit agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) *Consideration.* A Restricted Stock Unit may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) *Vesting*. Vesting shall generally be based on the Participant's Continuous Service. Shares of Common Stock awarded under the Restricted Stock Unit agreement shall be subject to a share reacquisition right in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) *Termination of Participant's Continuous Service.* In the event a Participant's Continuous Service terminates, the Company shall reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Restricted Stock Unit agreement.

(iv) *Transferability*. Rights to acquire shares of Common Stock under the Restricted Stock Unit agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Unit agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Restricted Stock Unit agreement remains subject to the terms of the Restricted Stock Unit agreement.

(f) *Performance Share Bonus Awards.* Each Performance Share Bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Performance Share Bonus agreements may change from time to time, and the terms and conditions of separate Performance Share Bonus agreements need not be identical, but each Performance Share Bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) *Consideration.* A Performance Share Bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) *Vesting*. Vesting shall be based on the achievement of certain performance criteria, whether financial, transactional or otherwise, as determined by the Board. Vesting shall be subject to the Performance Share Bonus agreement. Upon failure to meet performance criteria, shares of Common Stock awarded under the Performance Share Bonus agreement shall be subject to a share reacquisition right in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) *Termination of Participant's Continuous Service.* In the event a Participant's Continuous Service terminates, the Company shall reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Performance Share Bonus agreement.

(iv) *Transferability*. Rights to acquire shares of Common Stock under the Performance Share Bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Performance Share Bonus agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Performance Share Bonus agreement remains subject to the terms of the Performance Share Bonus agreement.

(g) *Performance Share Units*. The following terms and conditions shall govern the grant and redeemability of Performance Share Units:

A Performance Share Unit is the right to receive one (1) share of the Company's Common Stock at the time the Performance Share Unit vests. Participants may elect to defer receipt of shares of Common Stock otherwise deliverable upon the vesting of an award of performance shares. An election to defer such delivery shall be irrevocable and shall be made in writing on a form acceptable to the Company. The election form shall be filed prior to the vesting date of such performance shares in a manner determined by the Board. When the Participant vests in such performance shares, the Participant will be credited with a number of Performance Share Units equal to the number of shares of Common Stock for which delivery is deferred. Performance Share Units shall be paid by delivery of shares of Common Stock in accordance with the timing and manner of payment elected by the Participant on his or her election form, or if no deferral election is made, as soon as administratively practicable following the vesting of the Performance Share Unit.

Each Performance Share Unit agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Performance Share Unit agreements may change from time to time, and the terms and conditions of separate Performance Share Unit agreements need not be identical, but each Performance Share Unit agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) *Consideration*. A Performance Share Unit may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit. The Board shall have the discretion to provide that the Participant pay for such Performance Share Units with cash or other consideration permissible by law.

(ii) *Vesting*. Vesting shall be based on the achievement of certain performance criteria, whether financial, transactional or otherwise, as determined by the Board. Vesting shall be subject to the Performance Share Unit agreement. Upon failure to meet performance criteria, shares of Common Stock awarded under the Performance Share Unit agreement shall be subject to a share reacquisition right in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) *Termination of Participant's Continuous Service*. In the event a Participant's Continuous Service terminates, the Company shall reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Performance Share Unit agreement.

(iv) *Transferability*. Rights to acquire shares of Common Stock under the Performance Share Unit agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Performance Share Unit agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Performance Share Unit agreement remains subject to the terms of the Performance Share Unit agreement.

9. COVENANTS OF THE COMPANY.

(a) *Availability of Shares*. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) *Securities Law Compliance*. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise, redemption or satisfaction of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock related to such Stock Awards unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

11. CANCELLATION AND RE-GRANT OF OPTIONS.

(a) The Board shall have the authority to effect, at any time and from time to time, (i) the repricing of any outstanding Options under the Plan and/or (ii) with the consent of the affected Optionholders, the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different number of shares of Common Stock, but having an exercise price per share not less than eighty-five percent (85%) of the Fair Market Value (one hundred percent (100%) of Fair Market Value in the case of an Incentive Stock Option or, in the case of a 10% shareholder (as described in Subsection 5(b) of the Plan), not less than one hundred ten percent (110%) of the Fair Market Value) per share of Common Stock on the new grant date. Notwithstanding the foregoing, the Board may grant an Option with an exercise price lower than that set forth above if such Option is granted as part of a transaction to which section 424(a) of the Code applies. Prior to the implementation of any such repricing or cancellation of one or more outstanding Options, the Board shall obtain the approval of the shareholders of the Company.

(b) Shares subject to an Option canceled under this Section 11 shall continue to be counted against the maximum award of Options permitted to be granted pursuant to Subsection 5(c) of the Plan. The repricing of an Option under this Section 11, resulting in a reduction of the exercise price, shall be deemed to be a cancellation of the original Option and the grant of a substitute Option; in the event of such repricing, both the original and the substituted Options shall be counted against the maximum awards of Options permitted to be granted pursuant to Subsection 5(c) of the Plan. The provisions of this Subsection 11(b) shall be applicable only to the extent required by Section 162(m) of the Code.

12. MISCELLANEOUS.

(a) *Acceleration of Exercisability and Vesting*. The Board, (or Committee, if so authorized by the Board) shall have the power to accelerate exercisability and/or vesting when it deems fit, such as upon a Change of Control. The Board or Committee shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) *Shareholder Rights*. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to a Stock Award except to the extent that the Company has issued the shares of Common Stock relating to such Stock Award.

(c) *No Employment or other Service Rights*. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company, and any applicable provisions of the corporate law of the state in which the Company is incorporated, as the case may be.

(d) *Incentive Stock Option $100,000 Limitation.* To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) *Investment Assurances.* The Company may require a Participant, as a condition of exercising or redeeming a Stock Award or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of acquiring the Common Stock; (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock; and (iii) to give such other written assurances as the Company may determine are reasonable in order to comply with applicable law. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws, and in either case otherwise complies with applicable law. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) *Withholding Obligations.* To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state, local, or foreign tax withholding obligation relating to the exercise or redemption of a Stock Award or the acquisition, vesting, distribution or transfer of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

13. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) *Capitalization Adjustments*. If any change is made in the Common Stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, spinoff, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to Subsection 4(a) above, the maximum number of securities subject to award to any person pursuant to Subsection 5(c) above, and the number of securities subject to the option grants to Eligible Employee Directors under Section 7 of the Plan, and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of the securities subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) *Adjustments Upon a Change of Control.*

(i) In the event of a Change of Control as defined in 2(e)(i) through 2(e)(iv), such as an asset sale, merger, or change in ownership of voting power, then any surviving entity or acquiring entity shall assume or continue any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the shareholders in the transaction by which the Change of Control occurs) for those outstanding under the Plan. In the event any surviving entity or acquiring entity refuses to assume or continue such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the Board in its sole discretion and without liability to any person may (1) provide for the payment of a cash amount in exchange for the cancellation of a Stock Award equal to the product of (x) the excess, if any, of the Fair Market Value per share of Common Stock at such time over the exercise or redemption price, if any, *times* (y) the total number of shares then subject to such Stock Award, (2) continue the Stock Awards, or (3) notify Participants holding an Option, Stock Appreciation Right, or Phantom Stock Unit that they must exercise or redeem any portion of such Stock Award (including, at the discretion of the Board, any unvested portion of such Stock Award) at or prior to the closing of the transaction by which the Change of Control occurs and that the Stock Awards shall terminate if not so exercised or redeemed at or prior to the closing of the transaction by which the Change of Control occurs. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised or redeemed prior to the closing of the transaction by which the Change of Control occurs. The Board shall not be obligated to treat all Stock Awards, even those which are of the same type, in the same manner.

(ii) In the event of a Change of Control as defined in 2(e)(v), such as a dissolution of the Company, all outstanding Stock Awards shall terminate immediately prior to such event.

14. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) *Amendment of Plan*. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 13 of the Plan relating to adjustments upon changes in Common Stock, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy the requirements of Section 422 of the Code, any New York Stock Exchange, Nasdaq or other securities exchange listing requirements, or other applicable law or regulation.

(b) *Shareholder Approval*. The Board may, in its sole discretion, submit any other amendment to the Plan for shareholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) *Contemplated Amendments*. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) *No Material Impairment of Rights*. Rights under any Stock Award granted before amendment of the Plan shall not be materially impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) *Amendment of Stock Awards*. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be materially impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

15. TERMINATION OR SUSPENSION OF THE PLAN.

(a) *Plan Term*. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the shareholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) *No Material Impairment of Rights*. Suspension or termination of the Plan shall not materially impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

16. EFFECTIVE DATE OF PLAN.

The Plan shall become effective on the Securities Registration Date, but no Option or Stock Appreciation Right shall be exercised or redeemed (or, in the case of any other form of Stock Award, shall be granted) unless and until the Plan has been approved by the shareholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

17. CHOICE OF LAW.

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

EXHIBIT 31.1

CERTIFICATIONS

I, Ray Wirta, certify that:

1) I have reviewed this quarterly report on Form 10-Q of CB Richard Ellis Group, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

/s/ RAY WIRTA

Ray Wirta
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Kenneth J. Kay, certify that:

1) I have reviewed this quarterly report on Form 10-Q of CB Richard Ellis Group, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2005

/s/ KENNETH J. KAY

Kenneth J. Kay
Chief Financial Officer

EXHIBIT 32

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

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

(i) the Quarterly Report on Form 10-Q for the period ending March 31, 2005, of the Company (the "Report") fully complies with the requirements of Section 13(a) and 15(d), as applicable, of the Securities Exchange Act of 1934; and

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

Dated: May 10, 2005

/s/ RAY WIRTA
Ray Wirta
Chief Executive Officer

/s/ KENNETH J. KAY
Kenneth J. Kay
Chief Financial Officer

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