CBRE GROUP, INC.
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

For the Transition Period from to

Commission File Number 001 32205

CBRE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**94-3391143** **(I.R.S. Employer Identification Number)**
11150 Santa Monica Boulevard, Suite 1600 **Los Angeles, California** **(Address of principal executive offices)**	**90025** **(Zip Code)**

(310) 405-8900
(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 x No ¨.

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares of Class A common stock outstanding at July 31, 2012 was 328,219,385.

FORM 10-Q

June 30, 2012

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CBRE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 731,202	$ 1,093,182
Restricted cash	64,328	67,138
Receivables, less allowance for doubtful accounts of $38,770 and $33,915 at June 30, 2012 and December 31, 2011, respectively	1,092,964	1,135,371
Warehouse receivables	423,681	720,061
Trading securities	79,115	151,484
Income taxes receivable	48,414	
Prepaid expenses	110,538	111,879
Deferred tax assets, net	173,211	168,939
Real estate under development	37,426	30,617
Real estate and other assets held for sale	13,667	26,201
Available for sale securities	2,068	2,790
Other current assets	52,084	42,385
Total Current Assets	2,828,698	3,550,047
Property and equipment, net	299,310	295,488
Goodwill	1,816,040	1,828,407
Other intangible assets, net of accumulated amortization of $237,295 and $194,982 at June 30, 2012 and December 31, 2011, respectively	784,779	794,325
Investments in unconsolidated subsidiaries	210,115	166,832
Real estate under development	7,813	3,952
Real estate held for investment	432,585	403,698
Available for sale securities	55,136	34,605
Other assets, net	141,919	141,789
Total Assets	$ 6,576,395	$ 7,219,143
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 496,127	$ 574,136
Compensation and employee benefits payable	399,216	398,688
Accrued bonus and profit sharing	284,729	544,628
Securities sold, not yet purchased	63,833	98,810
Income taxes payable		28,368
Short-term borrowings:		
Warehouse lines of credit	417,245	713,362
Revolving credit facility	52,838	44,825
Other	4,692	16
Total short-term borrowings	474,775	758,203
Current maturities of long-term debt	68,060	67,838
Notes payable on real estate	139,410	146,120
Liabilities related to real estate and other assets held for sale	6,939	21,482
Other current liabilities	45,369	42,375
Total Current Liabilities	1,978,458	2,680,648
Long-Term Debt:		
Senior secured term loans	1,584,774	1,615,773

11.625% senior subordinated notes, net of unamortized discount of $10,253 and $10,984 at June 30, 2012 and December 31, 2011, respectively	439,747	439,016
6.625% senior notes	350,000	350,000
Other long-term debt	57	59
Total Long-Term Debt	2,374,578	2,404,848
Notes payable on real estate	243,334	206,339
Deferred tax liabilities, net	158,707	148,969
Non-current tax liabilities	86,062	79,927
Pension liability	60,627	60,860
Other liabilities	239,687	220,389
Total Liabilities	5,141,453	5,801,980
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders Equity:		
Class A common stock; $0.01 par value; 525,000,000 shares authorized; 328,219,385 and 327,972,156 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	3,282	3,280
Additional paid-in capital	908,657	882,141
Accumulated earnings	527,347	424,499
Accumulated other comprehensive loss	(184,424)	(158,439)
Total CBRE Group, Inc. Stockholders Equity	1,254,862	1,151,481
Non-controlling interests	180,080	265,682
Total Equity	1,434,942	1,417,163
Total Liabilities and Equity	$ 6,576,395	$ 7,219,143

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue	$ 1,601,117	$ 1,422,218	$ 2,951,106	$ 2,607,323
Costs and expenses:				
Cost of services	908,143	839,822	1,695,699	1,553,577
Operating, administrative and other	482,377	432,856	923,099	809,881
Depreciation and amortization	38,336	25,385	84,793	48,563
Total costs and expenses	1,428,856	1,298,063	2,703,591	2,412,021
Gain on disposition of real estate	439	6,027	1,248	7,999
Operating income	172,700	130,182	248,763	203,301
Equity income from unconsolidated subsidiaries	2,609	17,068	16,995	32,247
Other (loss) income	(2,104)		4,484	
Interest income	1,585	1,902	3,888	4,570
Interest expense	44,411	34,216	88,392	67,934
Income from continuing operations before provision for income taxes	130,379	114,936	185,738	172,184
Provision for income taxes	54,780	46,336	80,193	69,742
Income from continuing operations	75,599	68,600	105,545	102,442
Income from discontinued operations, net of income taxes		6,267		16,911
Net income	75,599	74,867	105,545	119,353
Less: Net (loss) income attributable to non-controlling interests	(274)	13,644	2,697	23,761
Net income attributable to CBRE Group, Inc.	$ 75,873	$ 61,223	$ 102,848	$ 95,592
Basic income per share attributable to CBRE Group, Inc. shareholders				
Income from continuing operations attributable to CBRE Group, Inc.	$ 0.24	$ 0.19	$ 0.32	$ 0.30
Income from discontinued operations attributable to CBRE Group, Inc.				
Net income attributable to CBRE Group, Inc.	$ 0.24	$ 0.19	$ 0.32	$ 0.30
Weighted average shares outstanding for basic income per share	320,852,344	317,698,275	320,761,873	317,133,967
Diluted income per share attributable to CBRE Group, Inc. shareholders				
	$ 0.23	$ 0.19	$ 0.32	$ 0.30

Income from continuing operations attributable to CBRE Group, Inc.								
Income from discontinued operations attributable to CBRE Group, Inc.								
Net income attributable to CBRE Group, Inc.	$	0.23	$	0.19	$	0.32	$	0.30
Weighted average shares outstanding for diluted income per share		326,081,681		324,093,042		325,910,274		323,510,069
Amounts attributable to CBRE Group, Inc. shareholders								
Income from continuing operations, net of tax	$	75,873	$	61,223	$	102,848	$	95,592
Income from discontinued operations, net of tax								
Net income	$	75,873	$	61,223	$	102,848	$	95,592

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$ 75,599	$ 74,867	$ 105,545	$ 119,353
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(40,181)	15,550	(21,659)	45,545
Unrealized losses on interest rate swaps and interest rate caps, net	(5,614)	(7,833)	(4,360)	(6,777)
Unrealized (losses) gains on available for sale securities, net	(1,100)	89	(186)	183
Other, net	333	909	(167)	323
Total other comprehensive (loss) income	(46,562)	8,715	(26,372)	39,274
Comprehensive income	29,037	83,582	79,173	158,627
Less: Comprehensive (loss) income attributable to non-controlling interests	(857)	14,116	2,310	24,591
Comprehensive income attributable to CBRE Group, Inc.	$ 29,894	$ 69,466	$ 76,863	$ 134,036

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 105,545	$ 119,353
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	84,793	49,088
Amortization of financing costs	4,643	3,241
Gain on sale of loans, servicing rights and other assets	(43,776)	(25,437)
Net realized and unrealized gains from investments	(4,484)	
Gain on disposition of real estate held for investment		(19,695)
Equity income from unconsolidated subsidiaries	(16,995)	(32,247)
Provision for doubtful accounts	6,842	6,830
Compensation expense related to stock options and non-vested stock awards	22,606	21,292
Incremental tax benefit from stock options exercised	(861)	(14,495)
Distribution of earnings from unconsolidated subsidiaries	8,017	11,855
Tenant concessions received	8,428	11,807
Purchase of trading securities	(121,412)	
Proceeds from sale of trading securities	125,412	
Proceeds from securities sold, not yet purchased	86,059	
Securities purchased to cover short sales	(73,250)	
Decrease in receivables	17,010	4,131
Increase in prepaid expenses and other assets	(10,831)	(4,523)
(Increase) decrease in real estate held for sale and under development	(9,378)	32,525
Decrease in accounts payable and accrued expenses	(47,455)	(34,955)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(284,895)	(256,597)
Increase in income taxes receivable/payable	(62,527)	(28,245)
Increase in other liabilities	5,721	400
Other operating activities, net	(871)	(718)
Net cash used in operating activities	(201,659)	(156,390)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(38,705)	(47,148)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired	(183)	(41,075)
Contributions to unconsolidated subsidiaries	(48,518)	(17,094)
Distributions from unconsolidated subsidiaries	11,583	34,988
Net proceeds from disposition of real estate held for investment		109,667
Additions to real estate held for investment	(2,562)	(6,315)
Proceeds from the sale of servicing rights and other assets	13,490	11,416
Decrease in restricted cash	2,909	3,974
Decrease in cash due to deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)	(73,187)	
Other investing activities, net	1,626	(704)
Net cash (used in) provided by investing activities	(133,547)	47,709
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior secured term loans		400,000
Repayment of senior secured term loans	(33,966)	(19,000)
Proceeds from revolving credit facility	23,222	744,733
Repayment of revolving credit facility	(15,230)	(652,000)

Proceeds from notes payable on real estate held for investment	4,515	3,551
Repayment of notes payable on real estate held for investment	(9,727)	(91,471)
Proceeds from notes payable on real estate held for sale and under development	6,146	1,665
Repayment of notes payable on real estate held for sale and under development	(1,394)	(26,594)
Proceeds from short-term borrowings	4,683	
Proceeds from exercise of stock options	3,137	4,858
Incremental tax benefit from stock options exercised	861	14,495
Non-controlling interests contributions	15,909	8,630
Non-controlling interests distributions	(24,080)	(30,679)
Payment of financing costs	(55)	(18,454)
Other financing activities, net	(58)	(91)
Net cash (used in) provided by financing activities	(26,037)	339,643
Effect of currency exchange rate changes on cash and cash equivalents	(737)	14,573
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(361,980)	245,535
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	1,093,182	506,574
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 731,202	$ 752,109
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 81,320	$ 68,221
Income tax payments, net	$ 143,350	$ 95,744

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(Dollars in thousands)

	CBRE Group, Inc. Shareholders					
	Class A common stock	Additional paid-in capital	Accumulated earnings	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance at December 31, 2011	$ 3,280	$ 882,141	$ 424,499	$ (158,439)	$ 265,682	$ 1,417,163
Net income			102,848		2,697	105,545
Stock options exercised (including tax benefit)	4	3,994				3,998
Compensation expense for stock options and non-vested stock awards		22,606				22,606
Foreign currency translation loss				(21,272)	(387)	(21,659)
Unrealized losses on interest rate swaps and interest rate caps, net				(4,360)		(4,360)
Unrealized losses on available for sale securities, net				(186)		(186)
Contributions from non-controlling interests					15,909	15,909
Distributions to non-controlling interests					(24,080)	(24,080)
Deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)					(91,580)	(91,580)
Other	(2)	(84)		(167)	11,839	11,586
Balance at June 30, 2012	$ 3,282	$ 908,657	$ 527,347	$ (184,424)	$ 180,080	$ 1,434,942

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2012. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2011.

2. New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate a Scope Clarification.* This ASU requires that a reporting entity that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt would apply FASB Accounting Standards Codification (ASC) Subtopic 360-20, *Property, Plant, and Equipment Real Estate Sales*, to determine whether to derecognize assets and liabilities of that subsidiary. ASU 2011-10 is effective prospectively for a deconsolidation event that takes place in fiscal years, and interim periods within those years, beginning on or after June 15, 2012. We do not believe the adoption of this update will have a material effect on our consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* This ASU adds certain additional disclosure requirements about financial instruments and derivative instruments that are subject to netting arrangements. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, with retrospective application required. We do not believe the adoption of this update will have a material impact on the disclosure requirements for our consolidated financial statements.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. REIM Acquisitions

On February 15, 2011, we announced that we had entered into definitive agreements to acquire the majority of the real estate investment management business of Netherlands-based ING Group N.V. (ING) for approximately $940 million in cash. The acquisitions included substantially all of ING s Real Estate Investment Management (REIM) operations in Europe and Asia, as well as substantially all of Clarion Real Estate Securities (CRES), its U.S.-based global real estate listed securities business (collectively referred to as ING REIM). On February 15, 2011, we also announced that we expected to acquire approximately $55 million of CRES co-investments from ING and potentially additional interests in other funds managed by ING REIM Europe and ING REIM Asia. Upon completion of the acquisitions (collectively referred to as the REIM Acquisitions), ING REIM became part of our Global Investment Management segment (which conducts business through our indirect wholly-owned subsidiary, CBRE Global Investors, an independently operated business segment). We completed the REIM Acquisitions in order to significantly enhance our ability to meet the needs of institutional investors across global markets with a full spectrum of investment programs and strategies.

We secured borrowings of $800.0 million of term loans to finance the REIM Acquisitions (see Note 10). Of this amount, $400.0 million was drawn on June 30, 2011 to finance the CRES portion of the REIM Acquisitions, which closed on July 1, 2011. On August 31, 2011, we drew down the remaining $400.0 million, part of which was used to finance the ING REIM Asia portion of the REIM Acquisitions, which closed on October 3, 2011, and the remainder, along with cash on hand and borrowings under our revolving credit facility, was used to finance the ING REIM Europe portion of the REIM Acquisitions, which closed on October 31, 2011.

The following represents a summary of the purchase price for the REIM Acquisitions (dollars in thousands):

Purchase of CRES on July 1, 2011	$ 324,072
Purchase of CRES co-investments on July 1, 2011	58,566
Purchase of ING REIM Asia on October 3, 2011	45,315
Purchase of ING REIM Europe on October 31, 2011	442,543
Total purchase price	$ 870,496

Our initial estimate of $940 million in total purchase price for the REIM Acquisitions has been reduced by approximately $47 million for certain fund and separate account management contracts that were not acquired and for certain balance sheet adjustments. As of June 30, 2012, there is a possibility of an additional closing of approximately $80 million and co-investments of up to $20 million in the future related to our acquisition of ING REIM Europe.

In connection with our acquisition of CRES, we acquired CRES co-investments from ING in three funds (CRES Funds) for an aggregate purchase price of $58.6 million, which has been included above. We determined that the CRES Funds were not variable interest entities and accordingly determined the method of accounting based upon voting control. The limited partners/members of the CRES Funds lack substantive rights that would overcome our presumption of control. Accordingly, we began consolidating the CRES Funds as of the acquisition date of July 1, 2011. Included in the consolidation of the CRES Funds on July 1, 2011 was $182.9 million of non-controlling interests. In connection with the REIM Acquisitions, we also acquired three ING REIM Asia co-investments from ING for an aggregate amount of $13.9 million on October 3, 2011 and several ING REIM Europe co-investments, including one for $7.4 million on October 31, 2011, and nine additional co-investments for an aggregate amount of $34.8 million during the six months ended June 30, 2012.

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In January 2012, one of the CRES Funds (CBRE Clarion U.S., L.P.) was converted to a registered mutual fund, the CBRE Clarion Long/Short Fund (the Fund). As a result of this triggering event, we determined that the Fund became a variable interest entity and that we were not the primary beneficiary. Accordingly, in the first quarter of 2012, the Fund was deconsolidated from our consolidated financial statements and we recorded an investment in available for sale securities of $14.3 million. No gain or loss was recognized in our consolidated statement of operations as a result of this deconsolidation. We continue to act as the Fund s adviser, make investment decisions for the Fund and review, supervise and administer the Fund s investment program.

The preliminary purchase accounting adjustments related to the REIM Acquisitions have been recorded in the accompanying consolidated financial statements. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. Given the complexity of the transaction, the calculation of the fair value of certain assets and liabilities acquired, primarily income tax items, is still preliminary. The purchase price allocation is expected to be completed as soon as practicable, but no later than one year from the acquisition date.

Unaudited pro forma results, assuming the REIM Acquisitions had occurred as of January 1, 2011 for purposes of the 2011 pro forma disclosures, are presented below. They include certain adjustments for the three and six months ended June 30, 2011, including $6.4 million and $12.8 million, respectively, of increased amortization expense as a result of intangible assets acquired in the REIM Acquisitions, $8.0 million and $16.2 million, respectively, of additional interest expense as a result of debt incurred to finance the REIM Acquisitions, the removal of $5.1 million and $12.7 million, respectively, of direct costs incurred by us and ING related to the REIM Acquisitions, and the tax impact of the pro forma adjustments. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the REIM Acquisitions occurred on January 1, 2011 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenue	$ 1,505,281	$ 2,767,756
Operating income	$ 147,274	$ 236,242
Net income attributable to CBRE Group, Inc.	$ 69,938	$ 112,692
Basic income per share	$ 0.22	$ 0.36
Weighted average shares outstanding for basic income per share	317,698,275	317,133,967
Diluted income per share	$ 0.22	$ 0.35
Weighted average shares outstanding for diluted income per share	324,093,042	323,510,069

4. Variable Interest Entities (VIEs)

A consolidated subsidiary (the Venture) in our Global Investment Management segment has sponsored investments by third-party investors in certain commercial properties through the formation of tenant-in-common limited liability companies and Delaware Statutory Trusts (collectively referred to as the Entities) that are owned by the third-party investors. The Venture also has formed and is a member of a limited liability company for each property that serves as master tenant (Master Tenant). Each Master Tenant leases the property from the Entities through a master lease agreement. Pursuant to the master lease agreements, the Master Tenant has the power to direct the day-to-day asset management activities that most significantly impact the economic performance of the Entities. As a result, the Entities were deemed to be VIEs since the third-party investors holding the equity investment at risk in the Entities do not direct the day-to-day activities that most significantly impact the

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

economic performance of the properties held by the Entities. An additional Entity was consolidated during the six months ended June 30, 2012. The related real estate assets held for investment were $26.5 million, nonrecourse mortgage notes payable were $15.9 million and non-controlling interests were $10.7 million as of June 30, 2012.

The Venture has made and may continue to make voluntary contributions to each of these properties to support their operations beyond the cash flow generated by the properties themselves. As of the most recent reconsideration date, such financial support has been significant enough that the Venture was deemed to be the primary beneficiary of each Entity. During both the six months ended June 30, 2012 and 2011, the Venture funded $0.2 million of financial support to the Entities.

Operating results relating to the Entities for the three and six months ended June 30, 2012 and 2011 include the following (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$ 3,720	$ 7,253	$ 6,594	$ 15,818
Operating, administrative and other expenses	$ 2,359	$ 4,373	$ 4,025	$ 8,088
Income from discontinued operations, net of income taxes	$	$ 6,267	$	$ 16,911
Net (loss) income attributable to non-controlling interests	$ (1,170)	$ 4,091	$ (2,017)	$ 13,068

Investments in real estate of $86.5 million and $61.3 million and nonrecourse mortgage notes payable of $77.2 million ($17.2 million of which is current) and $60.9 million ($1.2 million of which is current) are included in real estate held for investment and notes payable on real estate, respectively, in the accompanying consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively. In addition, non-controlling interests of $10.8 million and $1.6 million in the accompanying consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively, are attributable to the Entities.

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

As of June 30, 2012 and December 31, 2011, our maximum exposure to loss related to the VIEs which are not consolidated was as follows (dollars in thousands):

	June 30, 2012	December 31, 2011
Investments in unconsolidated subsidiaries	$ 46,490	$ 15,483
Available for sale securities	14,363	
Other assets, current	3,016	
Co-investment commitments	7,303	37,019
Maximum exposure to loss	$ 71,172	$ 52,502

CBRE GROUP, INC.

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5. Fair Value Measurements

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

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

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

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

There were no significant transfers in and out of Level 1 and Level 2 during the three and six months ended June 30, 2012 and 2011.

The following tables present the fair value of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	As of June 30, 2012			
	Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale securities:				
U.S. treasury securities	$ 10,378	$	$	$ 10,378
Debt securities issued by U.S. federal agencies		3,158		3,158
Corporate debt securities		8,782		8,782
Asset-backed securities		5,534		5,534
Collateralized mortgage obligations		3,325		3,325
Total debt securities	10,378	20,799		31,177
Equity securities	26,027			26,027
Total available for sale securities	36,405	20,799		57,204
Trading securities	79,115			79,115
Warehouse receivables		423,681		423,681

Total assets at fair value	$ 115,520	$ 444,480	$	$ 560,000
Liabilities				
Securities sold, not yet purchased	$ 63,833	$	$	$ 63,833
Interest rate swaps		47,024		47,024
Total liabilities at fair value	$ 63,833	$ 47,024	$	$ 110,857

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CBRE GROUP, INC.

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(Unaudited)

	As of December 31, 2011 Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale securities:				
U.S. treasury securities	$ 6,838	$	$	$ 6,838
Debt securities issued by U.S. federal agencies		6,024		6,024
Corporate debt securities		9,969		9,969
Asset-backed securities		5,226		5,226
Collateralized mortgage obligations		3,037		3,037
Total debt securities	6,838	24,256		31,094
Equity securities	6,301			6,301
Total available for sale securities	13,139	24,256		37,395
Trading securities	151,484			151,484
Warehouse receivables		720,061		720,061
Total assets at fair value	$ 164,623	$ 744,317	$	$ 908,940
Liabilities				
Securities sold, not yet purchased	$ 98,810	$	$	$ 98,810
Interest rate swaps		39,872		39,872
Total liabilities at fair value	$ 98,810	$ 39,872	$	$ 138,682

Fair value measurements for our available for sale securities are obtained from independent pricing services which utilize observable market data that may include quoted market prices, dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument s terms and conditions.

The trading securities and securities sold, not yet purchased are primarily in the United States (U.S.) and are generally valued at the last reported sales price on the day of valuation or, if no sales occurred on the valuation date, at the mean of the bid and asked prices on such date.

The fair values of the warehouse receivables are calculated based on already locked in security buy prices. At June 30, 2012 and December 31, 2011, all of the warehouse receivables included in the accompanying consolidated balance sheets were either under commitment to be purchased by Freddie Mac or had confirmed forward trade commitments for the issuance and purchase of Fannie Mae mortgage backed securities that will be secured by the underlying warehouse lines of credit. These assets are classified as Level 2 in the fair value hierarchy as all inputs are readily observable.

The valuation of interest rate swaps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves. To comply with the provisions of Topic 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable

CBRE GROUP, INC.

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credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with our adoption of ASU 2011-04, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of June 30, 2012, we have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 in the fair value hierarchy.

There were no significant non-recurring fair value measurements recorded during the three and six months ended June 30, 2012 and 2011.

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

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.

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

Senior Secured Term Loans: Based upon information from third-party banks (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our senior secured term loans was approximately $1.6 billion at June 30, 2012. Their actual carrying value totaled $1.7 billion at June 30, 2012 (see Note 10).

11.625% Senior Subordinated Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 11.625% senior subordinated notes was $499.1 million at June 30, 2012. Their actual carrying value totaled $439.7 million at June 30, 2012.

6.625% Senior Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 6.625% senior notes was $371.4 million at June 30, 2012. Their actual carrying value totaled $350.0 million at June 30, 2012.

Notes Payable on Real Estate: As of June 30, 2012, the carrying value of our notes payable on real estate was $389.5 million (see Note 9). These borrowings mostly have floating interest rates at spreads over a market rate index. It is likely that some portion of our notes payable on real estate have fair values lower than actual carrying values. Given our volume of notes payable and the cost involved in estimating their fair value, we determined it was not practicable to do so. Additionally, only $13.6 million of these notes payable are recourse to us as of June 30, 2012.

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6. Investments in Unconsolidated Subsidiaries

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Global Investment Management:				
Revenue	$ 200,895	$ 158,903	$ 371,615	$ 299,155
Operating income (loss)	$ 170,322	$ (8,636)	$ 159,848	$ (43,298)
Net income (loss)	$ 93,872	$ (20,102)	$ 137,078	$ (70,267)
Development Services:				
Revenue	$ 23,659	$ 28,167	$ 41,640	$ 47,581
Operating income	$ 6,048	$ 37,424	$ 32,480	$ 76,797
Net (loss) income	$ (981)	$ 26,689	$ 19,971	$ 59,131
Other:				
Revenue	$ 38,456	$ 32,417	$ 69,977	$ 66,802
Operating income	$ 4,682	$ 4,643	$ 7,729	$ 8,433
Net income	$ 5,533	$ 4,640	$ 8,649	$ 8,499
Total:				
Revenue	$ 263,010	$ 219,487	$ 483,232	$ 413,538
Operating income	$ 181,052	$ 33,431	$ 200,057	$ 41,932
Net income (loss)	$ 98,424	$ 11,227	$ 165,698	$ (2,637)

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

7. Real Estate and Other Assets Held for Sale and Related Liabilities

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	June 30, 2012	December 31, 2011
Assets:		
Real estate held for sale (see Note 8)	$ 13,123	$ 21,833
Other current assets	282	531
Other assets	262	3,837
Total real estate and other assets held for sale	13,667	26,201
Liabilities:		
Notes payable on real estate held for sale (see Note 9)	6,727	20,453
Accounts payable and accrued expenses	96	891
Other current liabilities	60	8
Other liabilities	56	130
Total liabilities related to real estate and other assets held for sale	6,939	21,482
Net real estate and other assets held for sale	$ 6,728	$ 4,719

8. Real Estate

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

	June 30, 2012	December 31, 2011
Real estate included in assets held for sale (see Note 7)	$ 13,123	$ 21,833
Real estate under development (current)	37,426	30,617
Real estate under development (non-current)	7,813	3,952
Real estate held for investment (1)	432,585	403,698
Total real estate (2)	$ 490,947	$ 460,100

(1) Net of accumulated depreciation of $47.5 million and $40.7 million at June 30, 2012 and December 31, 2011, respectively.

(2) Includes balances for lease intangibles and tenant origination costs of $8.4 million and $1.8 million, respectively, at June 30, 2012 and $8.7 million and $2.0 million, respectively, at December 31, 2011. We record lease intangibles and tenant origination costs upon acquiring real estate projects with in-place leases. The balances are shown net of amortization, which is recorded as an increase to, or a reduction of, rental income for lease intangibles and as amortization expense for tenant origination costs.

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9. Notes Payable on Real Estate

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

	June 30, 2012	December 31, 2011
Current portion of notes payable on real estate	$ 139,410	$ 146,120
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 7)	6,727	20,453
Total notes payable on real estate, current portion	146,137	166,573
Notes payable on real estate, non-current portion	243,334	206,339
Total notes payable on real estate	$ 389,471	$ 372,912

At both June 30, 2012 and December 31, 2011, $11.2 million of the non-current portion of notes payable on real estate and $2.4 million of the current portion of notes payable on real estate were recourse to us, beyond being recourse to the single-purpose entity that held the real estate asset and was the primary obligor on the note payable.

10. Debt

Since 2001, we have maintained credit facilities with Credit Suisse Group AG (CS) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On November 10, 2010, we entered into a new credit agreement (as amended, the Credit Agreement) with a syndicate of banks led by CS, as administrative and collateral agent, to completely refinance our previous credit facilities. On March 4, 2011, we entered into an amendment to our Credit Agreement to, among other things, increase flexibility to various covenants to accommodate the REIM Acquisitions and to maintain the availability of the $800.0 million incremental facility under the Credit Agreement. On March 4, 2011, we also entered into an incremental assumption agreement to allow for the establishment of new tranche C and tranche D term loan facilities. On November 10, 2011, we entered into an incremental assumption agreement led jointly by HSBC Bank USA, N.A. and J.P. Morgan Securities LLC to allow for the establishment of a new tranche A-1 term loan facility, which also reduced the $800.0 million incremental facility under the Credit Agreement.

As of June 30, 2012, our Credit Agreement provides for the following: (1) a $700.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on May 10, 2015; (2) a $350.0 million tranche A term loan facility requiring quarterly principal payments, which began on December 31, 2010 and continue through September 30, 2015, with the balance payable on November 10, 2015; (3) a £187.0 million (approximately $300.0 million) tranche A-1 term loan facility requiring quarterly principal payments, which began on December 30, 2011 and continue through March 31, 2016, with the balance payable on May 10, 2016; (4) a $300.0 million tranche B term loan facility requiring quarterly principal payments, which began on December 31, 2010 and continue through September 30, 2016, with the balance payable on November 10, 2016; (5) a $400.0 million tranche C term loan facility requiring quarterly principal payments, which began on September 30, 2011 and continue through December 31, 2017, with the balance payable on March 4, 2018; (6) a $400.0 million tranche D term loan facility requiring quarterly principal payments, which began on September 30, 2011 and continue through June 30, 2019, with the balance payable on September 4, 2019 and (7) an accordion provision which provides the ability to borrow additional funds under an incremental facility. The incremental facility is equivalent to the sum of $800.0 million and the aggregate amount of all repayments of term loans and permanent reductions of revolver commitments under the Credit Agreement.

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However, at no time may the sum of all outstanding amounts under the Credit Agreement exceed $2.95 billion. On November 10, 2011, we utilized the incremental facility to issue the tranche A-1 term loan facility.

In regards to the tranche C and tranche D term loan facilities, we had up to 180 days from the date we entered into the related incremental assumption agreement to draw on these facilities during which period we were required to pay a fee on the unused portions of each facility. On June 30, 2011, we drew down $400.0 million of the tranche D term loan facility to finance the CRES portion of the REIM Acquisitions, which closed on July 1, 2011. On August 31, 2011, we drew down $400.0 million of the tranche C term loan facility, part of which was used to finance the ING REIM Asia portion of the REIM Acquisitions, which closed on October 3, 2011. The remaining borrowings were used to finance the acquisition of ING REIM s operations in Europe, which closed on October 31, 2011.

The revolving credit facility allows for borrowings outside of the U.S., with sub-facilities of $5.0 million available to one of our Canadian subsidiaries, $35.0 million in aggregate available to one of our Australian and one of our New Zealand subsidiaries and $50.0 million available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision in the Credit Agreement. Borrowings under the revolving credit facility as of June 30, 2012 bear interest at varying rates, based at our option, on either the applicable fixed rate plus 1.65% to 3.15% or the daily rate plus 0.65% to 2.15% as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of June 30, 2012 and December 31, 2011, we had $52.8 million and $44.8 million, respectively, of revolving credit facility principal outstanding with related weighted average interest rates of 3.7% and 4.3%, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. As of June 30, 2012, letters of credit totaling $17.2 million were outstanding under the revolving credit facility. These letters of credit were primarily issued in the normal course of business as well as in connection with certain insurance programs and reduce the amount we may borrow under the revolving credit facility.

Borrowings under the term loan facilities as of June 30, 2012 bear interest, based at our option, on the following: for the tranche A and A-1 term loan facilities, on either the applicable fixed rate plus 2.00% to 3.75% or the daily rate plus 1.00% to 2.75%, as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement), for the tranche B term loan facility, on either the applicable fixed rate plus 3.25% or the daily rate plus 2.25%, for the tranche C term loan facility, on either the applicable fixed rate plus 3.25% or the daily rate plus 2.25% and for the tranche D term loan facility, on either the applicable fixed rate plus 3.50% or the daily rate plus 2.50%. As of June 30, 2012 and December 31, 2011, we had $288.8 million and $306.3 million, respectively, of tranche A term loan facility principal outstanding, $277.3 million and $285.1 million, respectively, of tranche A-1 term loan facility principal outstanding, $294.7 million and $296.3 million, respectively, of tranche B term loan facility principal outstanding, $396.0 million and $398.0 million, respectively, of tranche C term loan facility principal outstanding and $396.0 million and $398.0 million, respectively, of tranche D term loan facility principal outstanding, which are included in the accompanying consolidated balance sheets.

In March 2011, we entered into five interest rate swap agreements, all with effective dates in October 2011, and immediately designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. The purpose of these interest rate swap agreements is to hedge potential changes to our cash flows due to the variable interest nature of our senior secured term loan facilities. The total notional amount of these interest rate swap agreements is $400.0 million, with $200.0 million expiring in October 2017 and $200.0 million expiring in September 2019. There was no hedge ineffectiveness for the three and six months ended June 30, 2012 and 2011. We recorded net losses of $9.2 million and $7.1 million, respectively, during the three and six months ended June 30, 2012 and $13.2 million and $11.5 million, respectively, during the three and six months ended June 30, 2011 to other comprehensive loss in relation to these interest rate swap agreements. As of June 30, 2012 and December 31, 2011, the fair values of these interest rate swap agreements were reflected as a $47.0 million liability and a $39.9 million liability, respectively, and were included in other long-term liabilities in the accompanying consolidated balance sheets.

The Credit Agreement is jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. Borrowings under our Credit Agreement are secured by a pledge of substantially all of the capital stock of our U.S. subsidiaries and 65.0% of the capital stock of certain non-U.S. subsidiaries. Also, the Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment.

Our Credit Agreement and the indentures governing our 6.625% senior notes and 11.625% senior subordinated notes 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, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of EBITDA (as defined in the Credit Agreement) to total interest expense of 2.25x and a maximum leverage ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement) of 3.75x. Our coverage ratio of EBITDA to total interest expense was 11.13x for the trailing twelve months ended June 30, 2012 and our leverage ratio of total debt less available cash to EBITDA was 1.76x as of June 30, 2012.

11. 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 losses in excess of the amounts accrued arising from such lawsuits are remote, but that litigation is inherently uncertain and there is the potential for a material adverse effect on our financial statements if one or more matters are resolved in a particular period in an amount in excess of that anticipated by management.

We had outstanding letters of credit totaling $16.6 million as of June 30, 2012, excluding letters of credit for which we have outstanding liabilities already accrued on our consolidated balance sheet related to our subsidiaries outstanding reserves for claims under certain insurance programs as well as letters of credit related to operating leases. These letters of credit are primarily executed by us in the ordinary course of business and expire at varying dates through July 2013.

We had guarantees totaling $33.3 million as of June 30, 2012, excluding guarantees related to pension liabilities, consolidated indebtedness and other obligations for which we have outstanding liabilities already accrued on our consolidated balance sheet, and operating leases. The $33.3 million primarily consists of guarantees related to our defined benefit pension plans in the United Kingdom (U.K.) (in excess of our outstanding pension liability of $60.6 million as of June 30, 2012), which are continuous guarantees that will not expire until all amounts have been paid out for our pension liabilities. The remainder of the guarantees mainly represents guarantees of obligations of unconsolidated subsidiaries, which expire at varying dates through May 2014, as well as various guarantees of management contracts in our operations overseas, which expire at the end of each of the respective agreements.

In addition, as of June 30, 2012, we had numerous completion and budget guarantees relating to development projects. These guarantees are made by us in the ordinary course of our Development Services

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business. Each of these guarantees requires us to complete construction of the relevant project within a specified timeframe and/or within a specified budget, with us potentially being liable for costs to complete in excess of such timeframe or budget. However, we generally have guaranteed maximum price contracts with reputable general contractors with respect to projects for which we provide these guarantees. These contracts are intended to pass the risk to such contractors. While there can be no assurance, we do not expect to incur any material losses under these guarantees.

In January 2008, CBRE Multifamily Capital, Inc. (CBRE MCI), a wholly-owned subsidiary of CBRE Capital Markets, Inc., entered into an agreement with Fannie Mae, under Fannie Mae s DUS Lender Program (DUS Program), to provide financing for multifamily housing with five or more units. Under the DUS Program, CBRE MCI originates, underwrites, closes and services loans without prior approval by Fannie Mae, and in selected cases, is subject to sharing up to one-third of any losses on loans originated under the DUS Program. CBRE MCI has funded loans subject to such loss sharing arrangements with unpaid principal balances of $4.3 billion at June 30, 2012. Additionally, CBRE MCI has funded loans under the DUS Program that are not subject to loss sharing arrangements with unpaid principal balances of approximately $514.0 million at June 30, 2012. CBRE MCI, under its agreement with Fannie Mae, must post cash reserves under formulas established by Fannie Mae to provide for sufficient capital in the event losses occur. As of June 30, 2012 and December 31, 2011, CBRE MCI had $6.5 million and $4.6 million, respectively, of cash deposited under this reserve arrangement, and had provided approximately $8.0 million and $6.4 million, respectively, of loan loss accruals. Fannie Mae s recourse under the DUS Program is limited to the assets of CBRE MCI, which totaled approximately $254.7 million (including $164.2 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at June 30, 2012.

An important part of the strategy for our Global Investment Management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2.0% to 5.0% of the equity in a particular fund. As of June 30, 2012, we had aggregate commitments of $30.3 million to fund future co-investments.

Additionally, an important part of our Development Services business strategy is to invest in unconsolidated real estate subsidiaries as a principal (in most cases co-investing with our clients). As of June 30, 2012, we had committed to fund $15.5 million of additional capital to these unconsolidated subsidiaries.

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12. Income Per Share Information

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Computation of basic income per share attributable to CBRE Group, Inc. shareholders:				
Net income attributable to CBRE Group, Inc. shareholders	$ 75,873	$ 61,223	$ 102,848	$ 95,592
Weighted average shares outstanding for basic income per share	320,852,344	317,698,275	320,761,873	317,133,967
Basic income per share attributable to CBRE Group, Inc. shareholders	$ 0.24	$ 0.19	$ 0.32	$ 0.30

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Computation of diluted income per share attributable to CBRE Group, Inc. shareholders:				
Net income attributable to CBRE Group, Inc. shareholders	$ 75,873	$ 61,223	$ 102,848	$ 95,592
Weighted average shares outstanding for basic income per share	320,852,344	317,698,275	320,761,873	317,133,967
Dilutive effect of contingently issuable shares	3,520,310	4,040,084	3,376,807	3,776,379
Dilutive effect of stock options	1,709,027	2,354,683	1,771,594	2,599,723
Weighted average shares outstanding for diluted income per share	326,081,681	324,093,042	325,910,274	323,510,069
Diluted income per share attributable to CBRE Group, Inc. shareholders	$ 0.23	$ 0.19	$ 0.32	$ 0.30

For the three and six months ended June 30, 2012, 47,974 and 43,494 contingently issuable shares, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. For the three and six months ended June 30, 2012, options to purchase 103,423 shares of common stock were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

For the three and six months ended June 30, 2011, options to purchase 55,587 shares of common stock were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

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13. Pensions

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest cost	$ 3,898	$ 4,209	$ 7,758	$ 8,322
Expected return on plan assets	(3,635)	(4,337)	(7,234)	(8,573)
Amortization of unrecognized net loss	587	345	1,168	682
Net periodic pension cost	$ 850	$ 217	$ 1,692	$ 431

We contributed $1.4 million and $2.9 million to fund our pension plans during the three and six months ended June 30, 2012, respectively. We expect to contribute a total of $5.9 million to fund our pension plans for the year ending December 31, 2012.

14. Discontinued Operations

In the ordinary course of business, we dispose of real estate assets, or hold real estate assets for sale, that may be considered components of an entity in accordance with Topic 360. If we do not have, or expect to have, significant continuing involvement with the operation of these real estate assets after disposition, we are required to recognize operating profits or losses and gains or losses on disposition of these assets as discontinued operations in our consolidated statements of operations in the periods in which they occur. Real estate operations and dispositions accounted for as discontinued operations for the three and six months ended June 30, 2011 were reported in our Global Investment Management segment as follows (dollars in thousands):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenue	$ 1,355	$ 2,385
Costs and expenses:		
Operating, administrative and other	852	1,234
Depreciation and amortization	234	525
Total costs and expenses	1,086	1,759
Gain on disposition of real estate	6,601	17,638
Operating income	6,870	18,264

Interest expense		603		1,353
Income from discontinued operations, before provision for income taxes		6,267		16,911
Provision for income taxes				
Income from discontinued operations, net of income taxes		6,267		16,911
Less: Income from discontinued operations attributable to non-controlling interests		6,267		16,911
Income from discontinued operations attributable to CBRE Group, Inc.	$		$	

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

15. Industry Segments

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

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

Our EMEA and Asia Pacific segments provide services similar to the Americas business segment. The EMEA segment has operations primarily in Europe, while the Asia Pacific segment has operations 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 direct and indirect investments in real estate in North America, Europe and Asia.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenue				
Americas	$ 1,014,193	$ 897,828	$ 1,859,519	$ 1,647,943
EMEA	248,244	261,087	445,630	466,055
Asia Pacific	201,245	188,546	368,446	349,046
Global Investment Management	119,674	57,554	244,874	107,876
Development Services	17,761	17,203	32,637	36,403
	$ 1,601,117	$ 1,422,218	$ 2,951,106	$ 2,607,323

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
EBITDA				
Americas	$ 149,318	$ 115,375	$ 250,555	$ 193,503
EMEA	15,745	21,375	8,648	24,381
Asia Pacific	23,316	17,437	25,599	29,879
Global Investment Management	20,674	2,470	55,267	8,460
Development Services	2,762	9,438	12,269	22,916
	$ 211,815	$ 166,095	$ 352,338	$ 279,139

EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

income taxes and the accounting effects of capital spending and acquisitions, which would include impairment charges of goodwill and intangibles created from acquisitions. Such 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 operating performance of our various business segments and for other discretionary purposes, including as a significant component when measuring our operating performance under our employee incentive programs. Additionally, we believe EBITDA is useful to investors to assist them in getting a more complete picture of our results from operations.

However, EBITDA is not a recognized measurement under GAAP and when analyzing our operating performance, readers should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. 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.

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Americas				
Net income attributable to CBRE Group, Inc.	$ 60,664	$ 52,015	$ 94,231	$ 81,524
Add:				
Depreciation and amortization	19,485	14,831	37,811	27,662
Interest expense	35,363	25,740	70,964	51,572
Royalty and management service income	(7,241)	(6,895)	(13,858)	(13,515)
Provision for income taxes	41,964	30,951	63,717	49,327
Less:				
Interest income	917	1,267	2,310	3,067
EBITDA	$ 149,318	$ 115,375	$ 250,555	$ 193,503
EMEA				
Net income (loss) attributable to CBRE Group, Inc.	$ 8,313	$ 10,541	$ (1,063)	$ 10,392
Add:				
Depreciation and amortization	3,202	2,253	6,493	4,515
Interest expense	2,095	18	4,563	157
Royalty and management service expense	3,176	3,422	5,784	6,153
Provision for income taxes	3,544	5,248	2,134	3,788
Less:				
Interest income	4,585	107	9,263	624
EBITDA	$ 15,745	$ 21,375	$ 8,648	$ 24,381
Asia Pacific				
Net income attributable to CBRE Group, Inc.	$ 10,804	$ 6,186	$ 7,669	$ 9,087
Add:				
Depreciation and amortization	2,814	1,988	5,553	3,971
Interest expense	1,203	809	2,064	1,229
Royalty and management service expense	4,034	3,239	7,996	6,846
Provision for income taxes	4,834	5,745	2,835	9,535
Less:				
Interest income	373	530	518	789
EBITDA	$ 23,316	$ 17,437	$ 25,599	$ 29,879
Global Investment Management				
Net (loss) income attributable to CBRE Group, Inc.	$ (1,925)	$ (9,777)	$ 1,666	$ (12,232)
Add:				
Depreciation and amortization (1)	10,054	3,405	29,279	7,191
Interest expense (2)	7,460	5,688	13,819	10,453
Royalty and management service expense	31	234	78	516
Provision for income taxes	5,293	3,093	10,945	2,933
Less:				

Interest income	239	173	520	401
EBITDA (3)	$ 20,674	$ 2,470	$ 55,267	$ 8,460
Development Services				
Net (loss) income attributable to CBRE Group, Inc.	$ (1,983)	$ 2,258	$ 345	$ 6,821
Add:				
Depreciation and amortization	2,781	3,142	5,657	5,749
Interest expense	2,939	2,753	5,911	6,240
(Benefit of) provision for income taxes	(855)	1,299	562	4,159
Less:				
Interest income	120	14	206	53
EBITDA	$ 2,762	$ 9,438	$ 12,269	$ 22,916

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(1) Includes depreciation and amortization related to discontinued operations of $0.2 million and $0.5 million for the three and six months ended June 30, 2011, respectively.
(2) Includes interest expense related to discontinued operations of $0.6 million and $1.4 million for the three and six months ended June 30, 2011, respectively.
(3) Includes EBITDA related to discontinued operations of $0.8 million and $1.9 million for the three and six months ended June 30, 2011, respectively.

16. Guarantor and Nonguarantor Financial Statements

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of June 30, 2012 and December 31, 2011; condensed consolidating statements of operations for the three and six months ended June 30, 2012 and 2011; condensed consolidating statements of comprehensive income for the three and six months ended June 30, 2012 and 2011; and condensed consolidating statements of cash flows for the six months ended June 30, 2012 and 2011, of (a) CBRE Group, Inc. as the parent, (b) CBRE Services, Inc. (CBRE) as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CBRE Group, Inc. on a consolidated basis; and

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

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2012

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 5	$ 94,893	$ 283,381	$ 352,923	$	$ 731,202
Restricted cash		4,855	26,046	33,427		64,328
Receivables, net			458,953	634,011		1,092,964
Warehouse receivables (a)			423,681			423,681
Trading securities			96	79,019		79,115
Income taxes receivable	7,679	10,196		33,039	(2,500)	48,414
Prepaid expenses		2,229	44,660	63,649		110,538
Deferred tax assets, net			144,473	28,738		173,211
Real estate under development				37,426		37,426
Real estate and other assets held for sale				13,667		13,667
Available for sale securities			2,068			2,068
Other current assets			35,172	16,912		52,084
Total Current Assets	7,684	112,173	1,418,530	1,292,811	(2,500)	2,828,698
Property and equipment, net			203,117	96,193		299,310
Goodwill			1,005,003	811,037		1,816,040
Other intangible assets, net			517,518	267,261		784,779
Investments in unconsolidated subsidiaries			119,532	90,583		210,115
Investments in consolidated subsidiaries	1,627,847	2,089,599	1,216,333		(4,933,779)	
Intercompany loan receivable		1,613,525	700,000		(2,313,525)	
Real estate under development				7,813		7,813
Real estate held for investment			4,007	428,578		432,585
Available for sale securities			52,280	2,856		55,136
Other assets, net		45,270	48,166	48,483		141,919
Total Assets	$ 1,635,531	$ 3,860,567	$ 5,284,486	$ 3,045,615	$ (7,249,804)	$ 6,576,395
Current Liabilities:						
Accounts payable and accrued expenses	$	$ 9,609	$ 117,950	$ 368,568	$	$ 496,127
Compensation and employee benefits payable		626	241,146	157,444		399,216
Accrued bonus and profit sharing			165,375	119,354		284,729
Securities sold, not yet purchased				63,833		63,833
Income taxes payable			2,500		(2,500)	
Short-term borrowings:						
Warehouse lines of credit (a)			417,245			417,245
Revolving credit facility		10,214		42,624		52,838
Other			16	4,676		4,692
Total short-term borrowings		10,214	417,261	47,300		474,775
Current maturities of long-term debt		46,000		22,060		68,060
Notes payable on real estate				139,410		139,410

Liabilities related to real estate and other assets held for sale				6,939		6,939
Other current liabilities			43,480	1,889		45,369
Total Current Liabilities		66,449	987,712	926,797	(2,500)	1,978,458
Long-Term Debt:						
Senior secured term loans		1,329,500		255,274		1,584,774
11.625% senior subordinated notes, net		439,747				439,747
6.625% senior notes		350,000				350,000
Other long-term debt				57		57
Intercompany loan payable	380,669		1,863,652	69,204	(2,313,525)	
Total Long-Term Debt	380,669	2,119,247	1,863,652	324,535	(2,313,525)	2,374,578
Notes payable on real estate				243,334		243,334
Deferred tax liabilities, net			143,425	15,282		158,707
Non-current tax liabilities			81,426	4,636		86,062
Pension liability				60,627		60,627
Other liabilities		47,024	118,672	73,991		239,687
Total Liabilities	380,669	2,232,720	3,194,887	1,649,202	(2,316,025)	5,141,453
Commitments and contingencies						
Equity:						
CBRE Group, Inc. Stockholders Equity	1,254,862	1,627,847	2,089,599	1,216,333	(4,933,779)	1,254,862
Non-controlling interests				180,080		180,080
Total Equity	1,254,862	1,627,847	2,089,599	1,396,413	(4,933,779)	1,434,942
Total Liabilities and Equity	$ 1,635,531	$ 3,860,567	$ 5,284,486	$ 3,045,615	$ (7,249,804)	$ 6,576,395

(a) Although CBRE Capital Markets is included among our domestic subsidiaries, which jointly and severally guarantee our 11.625% senior subordinated notes, our 6.625% senior notes and our Credit Agreement, a substantial majority of warehouse receivables funded under the Bank of America (BofA), Fannie Mae As Soon As Pooled (ASAP) Program, Kemps Landing Capital Company, LLC (Kemps Landing), JP Morgan Chase Bank, N.A. (JP Morgan) and TD Bank, N.A. (TD Bank) lines of credit are pledged to BofA, Fannie Mae, Kemps Landing, JP Morgan and TD Bank, and accordingly, are not included as collateral for these notes or our other outstanding debt.

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2011

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 5	$ 298,370	$ 375,176	$ 419,631	$	$ 1,093,182
Restricted cash		4,845	21,827	40,466		67,138
Receivables, net			405,902	729,469		1,135,371
Warehouse receivables (a)			720,061			720,061
Trading securities			83	151,401		151,484
Income taxes receivable	15,526	6,879		3,669	(26,074)	
Prepaid expenses			46,040	65,839		111,879
Deferred tax assets, net			143,065	25,874		168,939
Real estate under development				30,617		30,617
Real estate and other assets held for sale				26,201		26,201
Available for sale securities			2,790			2,790
Other current assets			26,468	15,917		42,385
Total Current Assets	15,531	310,094	1,741,412	1,509,084	(26,074)	3,550,047
Property and equipment, net			202,674	92,814		295,488
Goodwill			1,004,875	823,532		1,828,407
Other intangible assets, net			510,219	284,106		794,325
Investments in unconsolidated subsidiaries			105,664	61,168		166,832
Investments in consolidated subsidiaries	1,432,638	1,832,044	1,211,409		(4,476,091)	
Intercompany loan receivable		1,490,897	700,000	34,378	(2,225,275)	
Real estate under development			693	3,259		3,952
Real estate held for investment			4,007	399,691		403,698
Available for sale securities			34,605			34,605
Other assets, net		49,389	48,603	43,797		141,789
Total Assets	$ 1,448,169	$ 3,682,424	$ 5,564,161	$ 3,251,829	$ (6,727,440)	$ 7,219,143
Current Liabilities:						
Accounts payable and accrued expenses	$	$ 11,674	$ 151,260	$ 411,202	$	$ 574,136
Compensation and employee benefits payable		626	208,692	189,370		398,688
Accrued bonus and profit sharing			308,748	235,880		544,628
Securities sold, not yet purchased				98,810		98,810
Income taxes payable			54,442		(26,074)	28,368
Short-term borrowings:						
Warehouse lines of credit (a)			713,362			713,362
Revolving credit facility		10,098		34,727		44,825
Other			16			16
Total short-term borrowings		10,098	713,378	34,727		758,203
Current maturities of long-term debt		46,000		21,838		67,838

Notes payable on real estate				146,120		146,120
Liabilities related to real estate and other assets held for sale				21,482		21,482
Other current liabilities			39,885	2,490		42,375
Total Current Liabilities		68,398	1,476,405	1,161,919	(26,074)	2,680,648
Long-Term Debt:						
Senior secured term loans		1,352,500		263,273		1,615,773
11.625% senior subordinated notes, net		439,016				439,016
6.625% senior notes		350,000				350,000
Other long-term debt				59		59
Intercompany loan payable	296,688		1,928,587		(2,225,275)	
Total Long-Term Debt	296,688	2,141,516	1,928,587	263,332	(2,225,275)	2,404,848
Notes payable on real estate				206,339		206,339
Deferr						