STAVROPOULOS NICKOLAS
Form 4
August 23, 2017

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
STAVROPOULOS NICKOLAS
(Last) (First) (Middle)
PG&E CORPORATION, 77 BEALE ST., P.O. BOX 770000
(Street)
SAN FRANCISCO, CA 94177
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PG&E Corp [PCG]

3. Date of Earliest Transaction (Month/Day/Year)
08/22/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
President & COO, PG&E Company

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/17/2017		G	V	2,203	D	$ 0	63,661	D	
Common Stock	08/17/2017		G	V	2,203	A	$ 0	26,052	I	Held by Stavropoulos Family Trust
Common Stock	08/22/2017		S (1)		1,101	D	$ 69.43	24,951	I	Held by Stavropoulos Family Trust
Common Stock								3,673.03 (2)	I	Held by Trustee of PG&E

Corporation
Retirement
Savings Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STAVROPOULOS NICKOLAS PG&E CORPORATION 77 BEALE ST., P.O. BOX 770000 SAN FRANCISCO, CA 94177			President & COO, PG&E Company	

Signatures

/s/ Eileen O. Chan, attorney-in-fact for Nickolas Stavropoulos (signed Power of Attorney on file with SEC)	08/23/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Transaction pursuant to reporting person's Rule 10b5-1 instruction.

(2) Represents the approximate number of shares of PG&E Corporation common stock held for the reporting person in the PG&E Corporation Common Stock Fund of the PG&E Corporation Retirement Savings Fund Plan (RSP). That fund holds units consisting of

PG&E Corporation common stock and a small short-term investments component. The number of shares is computed by dividing the value of the units by the daily closing price. Dividends are automatically invested in additional units at the election of the participant. These holdings have been trued up to conform to the RSP balance as of 8/22/17.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. se 2,071 16,168 12,996 3,666 (14,222) 20,679

Equity loss from consolidated subsidiaries

(14,612) (12,727) (7,750) 35,089

Loss before benefit for income taxes

(16,952) (16,877) (16,022) (10,356) 35,089 (25,118)

Benefit for income taxes

(384) (2,265) (3,295) (2,606) (8,550)

Explanation of Responses:

Net loss

$(16,568) $(14,612) $(12,727) $(7,750) $35,089 $(16,568)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$	$ 190,490	$ 73,234	$	$ 263,724
Costs and expenses:						

Cost of services			89,697	33,902		123,599
Operating, administrative and other	100	1,968	83,035	41,072		126,175
Depreciation and amortization			4,234	1,937		6,171
Operating (loss) income	(100)	(1,968)	13,524	(3,677)		7,779
Equity income (loss) from unconsolidated subsidiaries		24	3,249	(210)		3,063
Interest income	36	9,313	455	566	(9,295)	1,075
Interest expense	2,909	10,066	8,855	1,789	(9,295)	14,324
Equity income (loss) from consolidated subsidiaries	331	3,378	(4,649)		940	
(Loss) income before (benefit) provision for income taxes	(2,642)	681	3,724	(5,110)	940	(2,407)
(Benefit) provision for income taxes	(1,295)	350	346	(461)		(1,060)
Net (loss) income	$ (1,347)	$ 331	$ 3,378	$ (4,649)	$ 940	$ (1,347)

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2004

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$ (14,076)	$ 15,002	$ (78,947)	$ (9,346)	$ (87,367)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures, net of concessions received			(9,039)	(1,367)	(10,406)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(3,060)	(4,009)	(7,069)
Other investing activities, net			456	(2,079)	(1,623)
Net cash used in investing activities			(11,643)	(7,455)	(19,098)
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 and other loans, net			(286)	(12,516)	(12,802)
Decrease (increase) in intercompany receivables, net	13,975	(12,276)	(35,944)	34,245	
Other financing activities, net	270	(155)		(266)	(151)
Net cash provided by (used in) financing activities	14,245	(1,681)	(36,230)	21,463	(2,203)
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, net of amount capitalized	$ 1,533	$ 3,436	$ 384	$ 529	$ 5,882
Income taxes, net of refunds	3,529				3,529

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$ (678)	$ 4,924	$ (45,078)	$ (29,929)	$ (70,761)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures, net of concessions received			(3,228)	(772)	(4,000)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(22)		(22)
Other investing activities, net			1,866	(338)	1,528
Net cash used in investing activities			(1,384)	(1,110)	(2,494)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolver and swingline credit facility		33,750			33,750
Repayment of revolver and swingline credit facility		(20,250)			(20,250)
Repayment of senior secured term loans		(2,338)			(2,338)
(Increase) decrease in intercompany receivables, net		(15,864)	(15,256)	31,120	
Other financing activities, net	633			(39)	594
Net cash provided by (used in) financing activities	633	(4,702)	(15,256)	31,081	11,756
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45)	222	(61,718)	42	(61,499)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	127	54	74,173	5,347	79,701
Effect of currency exchange rate changes on cash				1,168	1,168
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 82	$ 276	$ 12,455	$ 6,557	$ 19,370
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	$ 2,009	$ 3,160	$ 406	$ 248	$ 5,823

Income taxes, net of refunds	14,532	14,532

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

17. Industry Segments

We report our operations through three geographically organized segments: (1) Americas, (2) Europe, Middle East and Africa (EMEA) and (3) Asia Pacific. The Americas consist of operations in the U.S., Canada, Mexico and South America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. Summarized financial information by operating segment is as follows (dollars in thousands):

	Three Months Ended March 31,	
	2004	2003
Revenue		
Americas	$ 327,191	$ 199,950
EMEA	85,357	45,478
Asia Pacific	28,444	18,296
	$ 440,992	$ 263,724
Operating (loss) income		
Americas	$ 205	$ 11,270
EMEA	(9,985)	(688)
Asia Pacific	508	(2,803)
	(9,272)	7,779
Equity income (loss) from unconsolidated subsidiaries		
Americas	2,480	3,226
EMEA	(238)	(126)
Asia Pacific	284	(37)
	2,526	3,063
Interest income	2,307	1,075
Interest expense	20,679	14,324
Loss before benefit for income tax	$ (25,118)	$ (2,407)

18. Subsequent Events

On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to $30.0 million of our existing indebtedness. In May 2004, we purchased $20.1 in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $2.9 of premiums in connection with these purchases.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized Class A common shares to 325,000,000 and the authorized Class B common shares to 100,000,000. Additionally, on May 4, 2004, we effected a three-for-one split of our outstanding Class A common stock and Class B common stock, which split was effected by a stock dividend. In addition, on June , 2004, we effected a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock. The applicable share and per share data for all periods included herein have been restated to give effect to these stock splits.

On May 12, 2004, our wholly owned subsidiary, L.J. Melody & Company, modified its credit agreement with RFC to provide a temporary revolving line of credit increase of $100.0 million that resulted in a total line of credit under the agreement equaling $350.0 million. This increase will be effective on May 30, 2004 and expires 90 days after the effective date.

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INDEPENDENT AUDITORS REPORT

To the Board of Directors and Stockholders of CB Richard Ellis Group, Inc.:

We have audited the accompanying consolidated balance sheets of CB Richard Ellis Group, Inc., a Delaware corporation, and subsidiaries (the Company) as of December 31, 2003 and 2002 and the related consolidated statements of operations, cash flows, stockholders equity and comprehensive (loss) income for each of the two years in the period ended December 31, 2003. Our audits also included the 2003 and 2002 financial statement schedules listed in the Index to Consolidated Financial Statements. These financial statements and the financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the 2003 and 2002 financial statements and the financial statement schedules based on our audits. The consolidated financial statements and the financial statement schedule of the Company for the period from February 20 (inception) to December 31, 2001 and the consolidated financial statements and financial statement schedule of CB Richard Ellis Services, Inc. (the Predecessor) for the period from January 1 to July 20, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and stated that such 2001 financial statement schedules, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein, in their report dated February 26, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 8 to the Consolidated Financial Statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 to conform to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142).

As discussed above, the consolidated financial statements of the Company for the period from February 20 (inception) to December 31, 2001 and the consolidated financial statements of the Predecessor for the period from January 1 to July 20, 2001 were audited by other auditors who have ceased operations. As described in Note 8, these consolidated financial statements have been revised to include the transitional disclosures required by SFAS 142, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 8 with respect to 2001 included (i) comparing the previously reported net income (loss) to the previously issued consolidated financial statements and the adjustments to reported net income (loss) representing amortization expense (including any related tax effects) recognized in those periods relating to goodwill that is no longer being amortized as a result of initially applying SFAS 142 to the Company s and the Predecessor s underlying analysis obtained from management, and (ii) testing the mathematical accuracy of the reconciliation of adjusted net income (loss) to reported net income (loss), and the related earnings (loss)-per-share amounts. In our opinion, the disclosures for 2001 in Note 8 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company and the Predecessor other than with respect to such disclosures, and accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

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As discussed above, the consolidated financial statements of the Company for the period from February 20 (inception) to December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 23, those consolidated financial statements have been revised to give effect to the stock split on May 4, 2004 and the reverse stock split on June , 2004 discussed in Note 23. We audited the adjustments described in Note 23 that were applied to revise the Company s 2001 consolidated financial statements for such stock split and reverse stock split. Our audit procedures included (1) comparing the amounts shown in the earnings per share disclosures for 2001 to the Company s underlying accounting analysis obtained from management, (2) comparing the previously reported shares outstanding and income statement amounts per the Company s accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the additional shares to give effect to the stock split and reverse stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, such adjustments have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such stock split and reverse stock split adjustments and, accordingly, we do not express an opinion or any form of assurance on the Company s 2001 consolidated financial statements taken as a whole.

Los Angeles, California

March 30, 2004 (June , 2004 as to the effects of the stock split and reverse stock split described in Note 23)

The accompanying consolidated financial statements reflect the 3-for-1 split of common stock, which was effected on May 4, 2004, and the 1-for-1.0825 reverse split of common stock, which is expected to be effected on or about June 7, 2004. The above report is in the form which will be signed by Deloitte & Touche LLP upon consummation of such split and reverse split, which are described in Note 23 of Notes to Consolidated Financial Statements, and assuming that, from March 30, 2004 to the date of such reverse split, no other events shall have occurred, other than those described in Note 23 of Notes to Consolidated Financial Statements, that would affect the accompanying consolidated financial statements and notes thereto.

DELOITTE & TOUCHE LLP

Los Angeles, California

May 19, 2004

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of CBRE Holding, Inc.:

We have audited the accompanying consolidated balance sheet of CBRE Holding, Inc., a Delaware corporation, (the Company) as of December 31, 2001 and related consolidated statements of operations, cash flows, stockholders equity and comprehensive income for the period from February 20, 2001 (inception) through December 31, 2001. We have also audited the accompanying consolidated balance sheet of CB Richard Ellis Services, Inc. (Predecessor) as of December 31, 2000, and the related consolidated statements of operations, cash flows, stockholders equity and comprehensive (loss) income for the period from January 1, 2001 to July 20, 2001, and the twelve months ended December 31, 2000 and 1999. These financial statements and the schedule referred to below are the responsibility of the Company s and the Predecessor s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CBRE Holding, Inc. as of December 31, 2001 and the results of their operations and their cash flows for the period from February 20, 2001 (inception) through December 31, 2001 and the financial position of CB Richard Ellis Services, Inc. (the Predecessor) as of December, 31 2000 and the results of their operations and their cash flows for the period from January 1, 2001 to July 20, 2001, and the twelve months ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission s rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Los Angeles, California

February 26, 2002

NOTE: The report of Arthur Andersen LLP presented above is a copy of a previously issued Arthur Andersen LLP report. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Form 10-K.

NOTE: The consolidated financial statements for the period from February 20 (inception) to December 31, 2001 and for the period from January 1 to July 20, 2001 have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142. Goodwill and Other Intangible Assets (see Note 8) and the stock splits (see Note 23). The report of Arthur Andersen LLP presented above does not extend to these revisions.

NOTE: On February 13, 2004, CBRE Holding, Inc. changed its name to CB Richard Ellis Group, Inc.

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	December 31,	
	2003	**2002**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 163,881	$ 79,701
Restricted cash	14,899	
Receivables, less allowance for doubtful accounts of $16,181 and $10,892 at December 31, 2003 and 2002, respectively	322,416	166,213
Warehouse receivable	230,790	63,140
Prepaid expenses	22,854	9,748
Deferred tax assets, net	57,681	18,723
Other current assets	26,461	8,415
Total current assets	838,982	345,940
Property and equipment, net	113,569	66,634
Goodwill	819,558	577,137
Other intangible assets, net of accumulated amortization of $73,449 and $7,739 at December 31, 2003 and 2002, respectively	131,731	91,082
Deferred compensation assets	76,389	63,642
Investments in and advances to unconsolidated subsidiaries	68,361	50,208
Deferred tax assets, net	32,179	36,376
Other assets, net	132,712	93,857
Total assets	$ 2,213,481	$ 1,324,876
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 189,787	$ 102,415
Compensation and employee benefits payable	148,874	63,734
Accrued bonus and profit sharing	200,343	103,858
Income taxes payable		15,451
Short-term borrowings:		
Warehouse line of credit	230,790	63,140
Other	39,347	60,054
Total short-term borrowings	270,137	123,194
Current maturities of long-term debt	11,285	10,711
Other current liabilities	12,991	11,724
Total current liabilities	833,417	431,087
Long-Term Debt:		
11 1/4% senior subordinated notes, net of unamortized discount of $2,827 and $3,057 at December 31, 2003 and 2002, respectively	226,173	225,943
Senior secured term loans	287,500	211,000
9 3/4% senior notes	200,000	
16% senior notes, net of unamortized discount of $2,844 and $5,107 at December 31, 2003 and 2002, respectively	35,472	61,863
Other long-term debt	42,275	198

Total long-term debt	791,420	499,004
Deferred compensation liability	138,037	106,252
Pension liability	35,998	10,766
Other liabilities	75,024	20,811
Total liabilities	1,873,896	1,067,920
Minority interest	6,656	5,615
Commitments and contingencies		
Stockholders Equity:		
Class A common stock; $0.01 par value; 325,000,000 shares authorized; 7,561,499 and 4,969,757 shares issued and outstanding (including treasury shares) at December 31, 2003 and 2002, respectively	76	50
Class B common stock; $0.01 par value; 100,000,000 shares authorized; 53,409,556 and 34,987,934 shares issued and outstanding at December 31, 2003 and 2002, respectively	534	350
Additional paid-in capital	361,522	240,318
Notes receivable from sale of stock	(4,680)	(4,800)
Accumulated earnings	1,449	36,153
Accumulated other comprehensive loss	(23,780)	(18,998)
Treasury stock at cost, 385,103 and 305,332 shares at December 31, 2003 and 2002, respectively	(2,192)	(1,732)
Total stockholders equity	332,929	251,341
Total liabilities and stockholders equity	$ 2,213,481	$ 1,324,876

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

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share data)

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Revenue	$ 1,630,074	$ 1,170,277	$ 562,828	$ 607,934
Costs and expenses:				
Cost of services	796,408	547,093	263,601	279,203
Operating, administrative and other	678,397	501,798	219,409	297,996
Depreciation and amortization	92,622	24,614	12,198	25,656
Merger-related and other nonrecurring charges	36,817	36	6,442	22,127
Operating income (loss)	25,830	96,736	61,178	(17,048)
Equity income from unconsolidated subsidiaries	14,365	9,326	1,554	2,874
Interest income	6,041	3,272	2,427	1,567
Interest expense	87,216	60,501	29,717	20,303
(Loss) income before (benefit) provision for income taxes	(40,980)	48,833	35,442	(32,910)
(Benefit) provision for income taxes	(6,276)	30,106	18,016	1,110
Net (loss) income	$ (34,704)	$ 18,727	$ 17,426	$ (34,020)
Basic (loss) earnings per share	$ (0.68)	$ 0.45	$ 0.80	$ (1.60)
Weighted average shares outstanding for basic (loss) earnings per share	50,918,572	41,640,576	21,741,351	21,306,584
Diluted (loss) earnings per share	$ (0.68)	$ 0.44	$ 0.79	$ (1.60)
Weighted average shares outstanding for diluted (loss) earnings per share	50,918,572	42,185,989	21,920,915	21,306,584

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

(Dollars in thousands)

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss) income	$ (34,704)	$ 18,727	$ 17,426	$ (34,020)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Depreciation and amortization	92,622	24,614	12,198	25,656
Amortization and write-off of deferred financing costs	13,276	3,322	1,316	1,152
Amortization and write-off of long-term debt discount	2,493	444	201	136
Deferred compensation deferrals	13,715	15,925	16,151	16,447
Gain on sale of properties and servicing rights	(5,321)	(6,287)	(2,868)	(10,009)
Equity income from unconsolidated subsidiaries	(14,365)	(9,326)	(1,554)	(2,874)
Provision for doubtful accounts	3,436	3,415	1,317	3,387
Deferred income tax (benefit) provision	(12,750)	5,158	(1,948)	(1,569)
(Increase) decrease in receivables	(43,011)	(4,770)	(18,379)	26,970
(Increase) decrease in deferred compensation assets	(12,747)	5,743	(4,517)	(11,665)
Increase (decrease) in accounts payable and accrued expenses	14,448	7,912	(4,749)	(5,491)
Increase (decrease) in compensation and employee benefits payable and accrued bonus and profit sharing	42,634	17,541	64,677	(101,312)
(Decrease) increase in income taxes payable	(15,197)	3,225	13,578	(16,357)
Increase (decrease) in other liabilities	16,021	(15,203)	(9,260)	(11,305)
Other operating activities, net	3,391	(5,558)	7,745	624
Net cash provided by (used in) operating activities	63,941	64,882	91,334	(120,230)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures, net of concessions received	(26,961)	(14,266)	(6,501)	(14,814)
Proceeds from sale of properties and servicing rights	3,949	6,378	2,108	9,544
Investment in property held for sale			(40,174)	(2,282)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(263,683)	(14,811)	(214,702)	(1,924)
Other investing activities, net	1,900	(1,431)	(2,124)	(2,663)
Net cash used in investing activities	(284,795)	(24,130)	(261,393)	(12,139)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from revolver and swingline credit facility	152,850	238,000	113,750	
Repayment of revolver and swingline credit facility	(152,850)	(238,000)	(113,750)	
Proceeds from senior secured term loans	375,000		235,000	
Repayment of senior secured term loans	(298,475)	(9,351)	(4,675)	
Proceeds from 9 3/4% senior notes	200,000			

Repayment of notes payable	(43,000)			
Proceeds from 16% senior notes			65,000	
Repayment of 16% senior notes	(30,000)			
Proceeds from (repayment of) senior notes and other loans, net	3,029	(8,205)	(1,188)	446
Proceeds from 11 1/4% senior subordinated notes			225,629	
Repayment of 8 7/8% senior subordinated notes			(175,000)	
Proceeds from non-recourse debt related to property held for sale			37,179	
Proceeds from revolving credit facility				195,000
Repayment of revolving credit facility			(235,000)	(70,000)
Payment of deferred financing fees	(22,707)	(443)	(21,750)	(8)
Proceeds from issuance of common stock	120,980	180	92,156	
Other financing activities, net	(1,163)	(19)	(3,520)	792
Net cash provided by (used in) financing activities	303,664	(17,838)	213,831	126,230
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	82,810	22,914	43,772	(6,139)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	79,701	57,450	13,662	20,854
Effect of currency exchange rate changes on cash	1,370	(663)	16	(1,053)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 163,881	$ 79,701	$ 57,450	$ 13,662
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest, net of amount capitalized	$ 63,718	$ 52,647	$ 26,126	$ 18,457
Income taxes, net of refunds	$ 17,783	$ 19,142	$ 5,061	$ 19,083

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

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands, except share data)

	CB Richard Ellis Group								
						Accumulated other comprehensive income (loss)			
	Class A common stock	Class B common stock	Additional paid-in capital	Notes receivable from sale of stock	Accumulated earnings	Minimum pension liability	Foreign currency translation	Treasury stock	Total
Balance, February 20, 2001	$	$	$	$	$	$	$	$	$
Net income					17,426				17,426
Contribution of deferred compensation plan stock fund units			18,771						18,771
Contribution of shares by certain shareholders of CB Richard Ellis Services, Inc.		222	121,590						121,812
Net issuance of Class A common stock	50		27,639						27,689
Issuance of Class B common stock		128	72,285						72,413
Notes receivable from sale of stock				(5,884)					(5,884)
Foreign currency translation gain							296		296
Balance, December 31, 2001	50	350	240,285	(5,884)	17,426		296		252,523
Net income					18,727				18,727
Issuance of Class A common stock			460	(180)					280
Net cancellation of deferred compensation stock fund units			(427)						(427)
Net collection on notes receivable from sale of stock				1,264					1,264
Purchase of common stock								(1,732)	(1,732)
Minimum pension liability adjustment, net of tax						(17,039)			(17,039)
Foreign currency translation loss							(2,255)		(2,255)
Balance, December 31, 2002	50	350	240,318	(4,800)	36,153	(17,039)	(1,959)	(1,732)	251,341
Net loss					(34,704)				(34,704)
Issuance of Class A common stock	26		14,681						14,707
Issuance of Class B common stock		184	106,169						106,353
Issuance of deferred compensation stock fund units, net of cancellations			195						195
Net collection on notes receivable from sale of stock				120					120
Purchase of common stock								(460)	(460)
Minimum pension liability adjustment, net of tax						1,930			1,930
Compensation expense for stock options			159						159
Foreign currency translation loss							(6,712)		(6,712)

Balance, December 31, 2003	$ 76	$ 534	$ 361,522	$ (4,680)	$ 1,449	$ (15,109)	$ (8,671)	$ (2,192)	$ 332,929

	Predecessor Company						
	Common stock	Additional paid-in capital	Notes receivable from sale of stock	Accumulated deficit	Accumulated other comprehensive loss	Treasury stock	Total
Balance, December 31, 2000	$ 217	$ 364,168	$ (11,847)	$ (89,097)	$ (12,258)	$ (15,844)	$ 235,339
Net loss				(34,020)			(34,020)
Common stock issued for incentive plans		360					360
Contributions, deferred compensation plan		1,004					1,004
Deferred compensation plan co-match		492					492
Net collection on notes receivable from sale of stock		(742)	1,001				259
Amortization of cheap and restricted stock	1	210					211
Tax deduction from issuance of stock		1,479					1,479
Foreign currency translation loss					(7,106)		(7,106)
Cancellation of common stock		(54)					(54)
Cancellation of common stock and elimination of historical equity due to the merger	(218)	(366,917)	10,846	123,117	19,364	15,844	(197,964)
Balance, July 20, 2001	$	$	$	$	$	$	$

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

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in thousands)

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Net (loss) income	$ (34,704)	$ 18,727	$ 17,426	$ (34,020)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(6,712)	(2,255)	296	(7,106)
Minimum pension liability adjustment, net of tax	1,930	(17,039)		
Total other comprehensive (loss) income	(4,782)	(19,294)	296	(7,106)
Comprehensive (loss) income	$ (39,486)	$ (567)	$ 17,722	$ (41,126)

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

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

CB Richard Ellis Group, Inc. (formerly known as CBRE Holding, Inc.), a Delaware corporation, 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. (Insignia Acquisition). We have no substantive operations other than our investment in CBRE.

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. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our majority-owned subsidiaries. Additionally, the consolidated financial statements for the period from January 1 to July 20, 2001 include the accounts of CBRE prior to the 2001 Merger as CBRE is considered our predecessor for purposes of Regulation S-X. The equity attributable to minority shareholders interests in subsidiaries is shown separately in the accompanying consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Use of Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results may differ from these estimates. Management believes that these estimates provide a reasonable basis for the fair presentation of our financial condition and results of operations.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash and highly liquid investments with an original maturity of less than three months. We control certain cash and cash equivalents as an agent for our investment and property management clients. These amounts are not included in the accompanying consolidated balance sheets (See Note 17).

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation, or in the case of capitalized leases, at the present value of the future minimum lease payments. Depreciation and amortization of property and equipment is computed primarily using the straight-line method over estimated useful lives ranging up to ten years. Leasehold improvements are amortized over the term of the respective leases, excluding options to renew. We capitalize expenditures that materially increase the life of the related assets and expense the costs of maintenance and repairs.

We periodically review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any of the significant assumptions inherent in this assessment materially change due to market, economic, and/or other factors, the recoverability is assessed based on the revised assumptions. If this analysis indicates that such assets are considered to be impaired, the impairment is recognized in the period the changes occur and represents the amount by which the carrying value exceeds the fair value of the asset.

Goodwill and Other Intangible Assets

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

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

Deferred Financing Costs

Costs incurred in connection with financing activities are deferred and amortized using the straight-line method over the terms of the related debt agreements ranging up to ten years. Amortization of these costs is charged to interest expense in the accompanying consolidated statements of operations. In the third quarter of 2003, in connection with the Insignia Acquisition, we entered into an amended and restated credit facility and wrote off $6.8 million of unamortized deferred financing costs associated with our prior credit facility. In the

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fourth quarter of 2003, we wrote off $1.8 million of unamortized deferred financing costs associated with the $20.0 million and $10.0 million redemptions of our 16% senior notes on October 27, 2003 and December 29, 2003, respectively. Total deferred costs, net of accumulated amortization, included in other assets in the accompanying consolidated balance sheets were $29.9 million and $20.5 million, as of December 31, 2003 and 2002, respectively.

Revenue Recognition

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

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

Business Promotion and Advertising Costs

The costs of business promotion and advertising are expensed as incurred in accordance with Statement of Position 93-7, *Reporting on Advertising Costs.* Business promotion and advertising costs of $23.5 million, $16.8 million, $6.1 million and $12.5 million were included in operating, administrative and other expenses for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001, respectively.

Foreign Currencies

The financial statements of subsidiaries located outside the United States (U.S.) are generally measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The resulting translation adjustments are included in the accumulated other comprehensive (loss) income component of stockholders equity. Gains and losses resulting from foreign currency transactions are included in the results of operations. The aggregate transaction gains and losses included in the accompanying consolidated statements of operations are a $9.8 million gain, a $6.4 million gain, a $0.2 million loss and a $0.3 million gain for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001, respectively.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive (Loss) Income

Comprehensive (loss) income consists of net (loss) income and other comprehensive (loss) income. Accumulated other comprehensive (loss) income consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude income tax expense (benefit) given that earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. The income tax benefit associated with the minimum pension liability adjustments is $6.5 million and $7.3 million as of December 31, 2003 and 2002, respectively.

Accounting for Transfers and Servicing

We follow SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* in accounting for loan sales and acquisition of servicing rights. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under the approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred at fair value. Servicing assets are amortized over the period of estimated servicing income with a write-off required when control is surrendered. Our recording of servicing rights at their fair value resulted in gains, which have been reflected in the accompanying consolidated statements of operations. Corresponding servicing assets of approximately $1.8 million and $2.1 million, for the years ended December 31, 2003 and 2002, respectively, are included in other intangible assets reflected in the accompanying consolidated balance sheets.

Accounting for Broker Draws

As part of our recruitment efforts relative to new U.S. brokers, we offer a transitional broker draw arrangement. Our broker draw arrangements generally last until such time as a broker s pipeline of business is sufficient to allow him or her to earn sustainable commissions. This program is intended to provide the broker with a minimal amount of cash flow to allow adequate time for his or her training as well as time for him or her to develop business relationships. Similar to traditional salaries, the broker draws are paid irrespective of the actual revenues generated by the broker. Often these broker draws represent the only form of compensation received by the broker. As a result, we have concluded that broker draws are economically equivalent to salaries paid and accordingly charge them to compensation as incurred. The broker is also entitled to earn a commission on completed revenue transactions. This amount is calculated as the commission that would have been payable under our full commission program, less any amounts previously paid to the broker in the form of a draw.

Stock-Based Compensation

Prior to 2003, we accounted for stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.* No stock-based employee compensation cost is reflected in net income (loss) for the year ended December 31, 2002, for the period from February 20 (inception) to December 31, 2001 or for the period from January 1 to July 20, 2001, as all options granted during those periods had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.* Awards under our stock-based compensation plans vest over five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net loss for the year ended December 31, 2003 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 value of our options based upon the Minimum Value method. Option valuation models require the input of assumptions such as the expected stock price volatility. As our common stock is not freely tradable on a national securities exchange or an over-the-counter market, an effectively zero percent volatility was utilized. The dividend yield is also excluded from the calculation, as it is our present intention to retain all earnings.

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

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Net (loss) income as reported	$ (34,704)	$ 18,727	$ 17,426	$ (34,020)
Add: Stock-based employee compensation expense included in reported net (loss) income, net of related tax effect	98			
Deduct: Total stock-based employee compensation expense determined under the minimum value method for all awards, net of related tax effect	(648)	(523)	(272)	(2,758)
Pro Forma net (loss) income	$ (35,254)	$ 18,204	$ 17,154	$ (36,778)
Basic EPS:				
As Reported	$ (0.68)	$ 0.45	$ 0.80	$ (1.60)
Pro Forma	$ (0.69)	$ 0.44	$ 0.79	$ (1.73)

Diluted EPS:				
As Reported	$ (0.68)	$ 0.44	$ 0.79	$ (1.60)
Pro Forma	$ (0.69)	$ 0.43	$ 0.78	$ (1.73)

The weighted average minimum value of options and warrants granted by us was $0.58 for the year ended December 31, 2003, $0.84 for the year ended December 31, 2002 and $0.67 for the period from February 20 (inception) to December 31, 2001. There were no stock options or warrants granted by CBRE for the period from January 1 to July 20, 2001 that remained outstanding as of December 31, 2001.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The minimum value of each option grant and warrant is estimated on the date of grant utilizing the following weighted average assumptions:

	Year Ended December 31,		Period From February 20 (inception) to December 31,
	2003	2002	2001
Risk-free interest rate	3.02%	4.06%	4.69%
Expected volatility	0.00%	0.00%	0.00%
Expected life	5 years	5 years	5 years

(Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share further assumes the dilutive effect of stock options, stock warrants and contingently issuable shares. Contingently issuable shares represent unvested stock fund units in the deferred compensation plan. In accordance with SFAS No. 128, *Earnings Per Share* these shares are included in the dilutive earnings per share calculation under the treasury stock method (see Note 16).

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes.* Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured by applying enacted tax rates and laws to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

New Accounting Pronouncements

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

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

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Reclassifications

Certain reclassifications, which do not have an effect on net income or equity, have been made to the 2002 and 2001 financial statements to conform to the 2003 presentation.

3. 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. We acquired Insignia to solidify our position as the market leader in the commercial real estate services industry.

In conjunction with and immediately prior to the Insignia Acquisition, Island Fund I LLC (Island), a Delaware limited liability company, which is affiliated with Andrew L. Farkas (Insignia s former Chairman and Chief Executive Officer) and some of Insignia s other former officers, completed the purchase of specified real estate investment assets of Insignia, pursuant to a Purchase Agreement, dated May 28, 2003 (the Island Purchase Agreement), by and among Insignia, us, CBRE, Apple Acquisition and Island. A number of the real estate investment assets that were sold to Island required the consent of one or more third parties in order to transfer such assets. Some of these third party consents were not obtained prior to or since the closing of the Insignia

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Acquisition. As a result, we continue to hold these real estate investment assets pending the receipt of these third party consents. While we hold these assets, we have generally agreed to provide Island with the economic benefits from these assets and Island generally has agreed to indemnify us with respect to any losses incurred in connection with continuing to hold these assets.

Pursuant to the terms of the Insignia Acquisition Agreement, (1) each issued and outstanding share of Insignia Common Stock (other than treasury shares), par value $0.01 per share, was converted into the right to receive $11.156 in cash, without interest (the Insignia Common Stock Merger Consideration), (2) each issued and outstanding share of Insignia s Series A Preferred Stock, par value $0.01 per share, and Series B Preferred Stock, par value $0.01 per share, was converted into the right to receive $100.00 per share, plus accrued and unpaid dividends, (3) all outstanding warrants and options to acquire Insignia common stock other than as described below, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of the Insignia Common Stock Merger Consideration over the per share exercise price of the option or warrant, multiplied by the number of shares of Insignia Common Stock subject to the option or warrant less any applicable withholding taxes and (4) outstanding options to purchase Insignia Common Stock granted pursuant to Insignia s 1998 Stock Investment Plan, whether vested or unvested, were canceled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of (a) the higher of (x) the Insignia Common Stock Merger Consideration, or (y) the highest final sale price per share of the Insignia Common Stock as reported on the New York Stock Exchange (NYSE) at any time during the 60-day period preceding the closing of the Insignia Acquisition (which was $11.20), over (b) the exercise price of the options, multiplied by the number of shares of Insignia Common Stock subject to the options, less any applicable withholding taxes. Following the Insignia Acquisition, the Insignia Common Stock was delisted from the NYSE and deregistered under the Securities Exchange Act of 1934.

The funding to complete the Insignia Acquisition, as well as the refinancing of substantially all of the outstanding indebtedness of Insignia, was obtained through (a) the sale of 18,255,339 shares of our Class B Common Stock, par value $0.01 per share, to Blum Strategic, a Delaware limited partnership, Blum Strategic Partners II, L.P., a Delaware limited partnership and Blum Strategic Partners II GmbH & Co. KG, a German limited partnership, for an aggregate cash purchase price of $105,394,160; (b) the sale of 631,497 shares of our Class A Common Stock, par value $.01 per share, to DLJ Investment Partners, L.P., a Delaware limited partnership, DLJ Investment Partners II, L.P., a Delaware limited partnership and DLJIP II Holdings, L.P., a Delaware limited partnership, for an aggregate cash purchase price of $3,645,840; (c) the sale of 1,732,102 shares of our Class A Common Stock to California Public Employees Retirement System (CalPERS) for an aggregate cash purchase price of $10,000,000; (d) the sale of 166,282 shares of our Class B Common Stock to Frederic V. Malek, a director of our company, for an aggregate cash purchase price of $960,000; (e) the release from escrow of the net proceeds from the offering by CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE that merged with and into CBRE in connection with the Insignia Acquisition, of $200.0 million of the 9 3/4% Senior Notes due May 15, 2010 (see Note 12), issued and sold by CBRE Escrow on May 22, 2003; (f) $75.0 million of term loan borrowings under the Amended and Restated Credit Agreement (see Note 12), dated as of May 22, 2003, by and among CBRE, Credit Suisse First Boston (CSFB) as Administrative Agent and Collateral Agent, the other lenders named in the credit agreement, us and the guarantors named in the credit agreement and (g) $36,870,230 of cash proceeds from the completion of the sale to Island.

The aggregate preliminary purchase price for the Insignia Acquisition was approximately $328.0 million, which includes: (1) $267.9 million in cash paid for shares of Insignia s outstanding common stock, valued at $11.156 per share, (2) $100.00 per share plus accrued and unpaid dividends paid to the owners of Insignia s outstanding Series A preferred stock and Series B preferred stock totaling $38.2 million, (3) cash payments of $7.9 million to holders of Insignia s vested and unvested warrants and options and (4) $14.0 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees.

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The preliminary purchase accounting adjustments related to the Insignia Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, July 23, 2003. The final valuation of the net assets acquired is expected to be completed as soon as practicable, but no later than one year from the acquisition date. Given the size and complexity of the acquisition, the fair valuation of certain assets acquired, primarily net deferred tax assets, is still preliminary. Additionally, adjustments to the estimated liabilities assumed in connection with the Insignia Acquisition may still be required. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition (in thousands):

Fair Value of Assets Acquired and Liabilities Assumed

At July 23, 2003

Current assets	$ 270,641
Property and equipment, net	32,532
Goodwill	237,569
Other intangible assets, net	102,748
Other assets	30,776
Total assets acquired	674,266
Current liabilities	168,574
Liabilities assumed in connection with the Insignia Acquisition	87,739
Notes payable	43,000
Other liabilities	46,994
Total liabilities assumed	346,307
Net assets acquired	$ 327,959

The following is a summary of the intangible assets acquired in connection with the Insignia Acquisition (dollars in thousands):

	Weighted Average Amortization Period	July 23, 2003 Gross Carrying Amount	December 31, 2003 Accumulated Amortization	December 31, 2003 Net Carrying Amount
Backlog	(1)	$ 72,503	$ (59,108)	$ 13,395
Trade name	n/a	19,826		19,826
Management contracts	5 years	4,611	(490)	4,121

Other	6 years	5,808	(821)	4,987

(1) Weighted average amortization period is not determinable. See Note 8 for additional information.

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

	2003 Charge to Goodwill	Utilized to Date	To be Utilized
Severance	$ 30,706	$ 13,676	$ 17,030
Lease termination costs	28,922	3,065	25,857
Change of control payments	10,451	10,451	
Costs associated with exiting contracts	8,921	7,632	1,289
Legal settlements anticipated	8,739	2,900	5,839
	$ 87,739	$ 37,724	$ 50,015

The liability for severance covers approximately 450 employees with the bulk of the terminations occurring in the U.S. A majority of the amount unpaid as of December 31, 2003 represents future payments required as per severance agreements for the top six former senior executives of Insignia. These amounts will be paid as required by their severance agreements up through their expiration dates of December 31, 2004 and December 31, 2005. All other outstanding liabilities for severance are expected to be paid in 2004. We identified approximately 50 redundant facilities consisting of both sales and corporate offices. A total accrual for lease termination costs of $28.9 million was established for office closures, the majority of which were located in the U.S. The liability for lease termination costs will be paid over the remaining contract periods through 2012. The change of control payments represented amounts paid to the top six former senior executives of Insignia as a direct result of the Insignia Acquisition as stipulated in their employment contracts. In connection with the Insignia Acquisition, we incurred costs associated with the termination of contracts that Insignia entered into prior to the Insignia Acquisition. We expect to pay all remaining costs relating to exiting these contracts in 2004. We have accrued approximately $8.7 million to cover our exposure in various lawsuits involving Insignia that were pending prior to the Insignia Acquisition. These liabilities will be paid as each case is settled.

4. 2001 Merger

On July 20, 2001, we acquired CBRE pursuant to an Amended and Restated Agreement and Plan of Merger dated May 31, 2001 (the 2001 Merger Agreement) among us, CBRE and Blum CB. At the effective time of the 2001 Merger, CBRE became our wholly owned subsidiary. Pursuant to the terms of the 2001 Merger Agreement, each issued and outstanding share of common stock of CBRE was converted into the right to receive $16.00 in cash, except for: (i) shares of common stock of CBRE owned by us and Blum CB immediately prior to the 2001 Merger, totaling 7,967,774 shares, which were cancelled, (ii) treasury shares and shares of common stock of CBRE owned by any of its subsidiaries, which were cancelled and (iii) shares of CBRE held by stockholders who perfected appraisal rights for such shares in accordance with Delaware law. All shares of common stock of CBRE outstanding prior to the 2001 Merger were acquired by us and subsequently cancelled. Immediately prior to the 2001 Merger, the following, collectively referred to as the buying group, contributed to us all the shares of CBRE s common stock that he or it directly owned in exchange for three shares of our Class B common stock: Blum Strategic, FS Equity Partners III, L.P. (FSEP III), a Delaware limited partnership, FS Equity Partners International, L.P. (FSEP International), a Delaware limited partnership, The Koll Holding

Company, a California corporation, Frederic V. Malek, a director of our company and CBRE, Raymond E. Wirta, the Chief Executive Officer and a director of our company and CBRE, and Brett White, the President and a director of our company and CBRE. Such shares of common stock of CBRE, which totaled 7,967,774 shares of common stock,

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were then cancelled. In addition, we offered to purchase for cash, options outstanding to acquire common stock of CBRE at a purchase price per option equal to the greater of the amount by which $16.00 exceeded the exercise price of the option, if at all, or $1.00. In connection with the 2001 Merger, CBRE purchased its outstanding options on our behalf, which were recorded as merger-related and other nonrecurring charges by CBRE in the period from January 1 to July 20, 2001.

The funding to complete the 2001 Merger, as well as the refinancing of substantially all of the outstanding indebtedness of CBRE, was obtained through: (i) a cash contribution of $74.8 million from the sale of our Class B common stock for $5.77 per share, (ii) sale of shares of our Class A common stock for $5.77 per share to employees and independent contractors of CBRE, (iii) sale of 1,732,102 shares of our Class A common stock to CalPERS for $5.77 per share, (iv) issuance and sale of 65,000 units for $65.0 million to DLJ Investment Funding, Inc. and other purchasers, which units consisted of $65.0 million in aggregate principal amount of 16% Senior Notes due July 20, 2011 and 941,764 shares of our Class A common stock, (v) issuance and sale by Blum CB of $229.0 million in aggregate principal amount of 11 1/4% Senior Subordinated Notes due June 15, 2011 for $225.6 million (which were assumed by CBRE in connection with the 2001 Merger) and (vi) borrowings by CBRE under a new $325.0 million senior credit facility with CSFB and other lenders.

Following the 2001 Merger, the common stock of CBRE was delisted from the NYSE. CBRE also successfully completed a tender offer and consent solicitation for all of the outstanding principal amount of its 8 7/8% Senior Subordinated Notes due 2006 (the Subordinated Notes). The Subordinated Notes were purchased at $1,079.14 for each $1,000 principal amount of Subordinated Notes, which included a consent payment of $30.00 per $1,000 principal amount of Subordinated Notes. We also repaid the outstanding balance of CBRE s existing revolving credit facility. We entered into the 2001 Merger in order to enhance the flexibility to operate CBRE s existing businesses and to develop new ones.

5. Basis of Preparation

The accompanying consolidated balance sheets as of December 31, 2003 and 2002, and the consolidated statements of operations, cash flows and stockholders equity for the years ended December 31, 2003 and 2002 and for the period from February 20 (inception) to December 31, 2001, reflect our consolidated balance sheets, results of operations, cash flows and stockholders equity from our company s inception and also include the consolidated financial statements of CBRE from the date of the 2001 Merger, including all material adjustments required under the purchase method of accounting. For purposes of Regulation S-X, CBRE is considered our predecessor. As such, the historical financial statements of CBRE prior to the 2001 Merger are included in the accompanying consolidated financial statements, including the consolidated statements of operations, cash flows and stockholders equity for the period from January 1 to July 20, 2001 (the Predecessor financial statements). The Predecessor financial statements have not been adjusted to reflect our acquisition of CBRE. As such, our consolidated financial statements after the 2001 Merger are not directly comparable to the Predecessor financial statements prior to the 2001 Merger. Additionally, the accompanying consolidated balance sheet as of December 31, 2003 and the consolidated statements of operations and cash flows for the year ended December 31, 2003 include the consolidated financial statements of Insignia from July 23, 2003, the date of the Insignia Acquisition, including all material adjustments required under the purchase method of accounting. As such, our consolidated financial statements after the Insignia Acquisition are not directly comparable to our financial statements prior to the Insignia Acquisition.

Unaudited pro forma results, assuming the Insignia Acquisition had occurred as of January 1, 2003 and 2002 for purposes of the 2003 and 2002 pro forma disclosures, respectively, are presented below. These unaudited pro forma results have been prepared for comparative purposes only

and include certain adjustments, such as increased amortization expense as a result of intangible assets acquired in the Insignia Acquisition as

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well as higher interest expense as a result of debt incurred to finance the Insignia Acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the Insignia Acquisition occurred on January 1, 2003 or 2002, respectively, and may not be indicative of future operating results (dollars in thousands, except share data):

	Year Ended December 31,	
	2003	2002
	(Unaudited)	
Revenue	$ 1,948,827	$ 1,744,162
Operating income	$ 17,871	$ 59,380
Net loss	$ (43,923)	$ (20,443)
Basic and diluted loss per share	$ (0.70)	$ (0.33)
Weighted average shares outstanding for basic and diluted loss per share	62,478,565	62,425,796

6. Restricted Cash

Included in the accompanying consolidated balance sheet as of December 31, 2003 is restricted cash of $14.9 million, which primarily consists of cash pledged to secure the guarantee of notes issued in connection with previous acquisitions by Insignia in the U.K. The acquisitions include the 1999 acquisition of St. Quintin Holdings Limited and the 1998 acquisition of Richard Ellis Group Limited.

7. Property and Equipment

Property and equipment consists of the following (dollars in thousands):

	December 31,	
	2003	2002
Leasehold improvements	$ 48,741	$ 20,000
Furniture and equipment	162,157	116,268
Equipment under capital leases	12,820	13,925
	223,718	150,193
Accumulated depreciation	(110,149)	(83,559)

Property and equipment, net	$ 113,569	$ 66,634

Depreciation expense was $28.3 million for the year ended December 31, 2003, $20.8 million for the year ended December 31, 2002, $9.1 million for the period from February 20 (inception) to December 31, 2001 and $12.6 million for the period from January 1 to July 20, 2001.

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8. Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets.* Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite useful lives are no longer amortized but are subject to impairment tests on an annual basis, at a minimum, or whenever events or circumstances occur indicating that those assets might be impaired. We adopted the non-amortization provisions of SFAS No. 142 on July 20, 2001, the effective date of the 2001 Merger. The following table presents the impact of SFAS No. 142 on, our net (loss) income and net (loss) earnings per share had the standard been in effect for the period from January 1 to July 20, 2001 (dollars in thousands, except share data):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Reported net (loss) income	$ (34,704)	$ 18,727	$ 17,426	$ (34,020)
Add back amortization of goodwill, net of taxes				7,701
Adjusted net (loss) income	$ (34,704)	$ 18,727	$ 17,426	$ (26,319)
Basic (loss) earnings per share:				
Reported (loss) earnings per share	$ (0.68)	$ 0.45	$ 0.80	$ (1.60)
Add back goodwill amortization per share				0.36
Adjusted basic (loss) earnings per share	$ (0.68)	$ 0.45	$ 0.80	$ (1.24)
Diluted (loss) earnings per share:				
Reported (loss) earnings per share	$ (0.68)	$ 0.44	$ 0.79	$ (1.60)
Add back goodwill amortization per share				0.36
Adjusted diluted (loss) earnings per share	$ (0.68)	$ 0.44	$ 0.79	$ (1.24)

The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. We are in the process of finalizing the fair value of all assets acquired and liabilities assumed as of July 23, 2003, the effective date of the Insignia Acquisition (See Note 3 for additional information). The following table summarizes the estimated goodwill allocated to our operating segments in connection with the Insignia Acquisition as well as other changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 (dollars in thousands):

	Americas	EMEA	Asia Pacific	Total
Balance at January 1, 2002	$ 510,188	$ 96,637	$ 2,718	$ 609,543
Purchase accounting adjustments related to acquisitions	15,321	5,809	688	21,818
Reclassed (to) from intangibles assets	(57,841)	3,617		(54,224)
Balance at December 31, 2002	467,668	106,063	3,406	577,137
Purchase accounting adjustments related to acquisitions	130,771	111,043	607	242,421
Balance at December 31, 2003	$ 598,439	$ 217,106	$ 4,013	$ 819,558

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Other intangible assets totaled $131.7 million and $91.1 million, net of accumulated amortization of $73.5 million and $7.7 million, as of December 31, 2003 and 2002, respectively, and are comprised of the following (dollars in thousands):

	December 31,			
	2003		2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortizable intangible assets				
Trademarks	$ 63,700		$ 63,700	
Trade name	19,826			
Total	$ 83,526		$ 63,700	
Amortizable intangible assets				
Backlog	$ 72,503	$ (59,108)	$	$
Management contracts	25,649	(9,708)	18,887	(5,605)
Loan servicing rights	17,694	(3,812)	16,234	(2,134)
Other	5,808	(821)		
Total	$ 121,654	$ (73,449)	$ 35,121	$ (7,739)

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 prior to the Insignia Acquisition. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

Backlog represents the fair value of Insignia s net revenue backlog as of July 23, 2003, which was acquired as part of the Insignia Acquisition. The backlog consists of the net commissions receivable on Insignia s revenue producing transactions, which were at various stages of completion prior to the Insignia Acquisition. This intangible asset is being amortized as cash is received or upon final closing of these pending transactions.

Management contracts are primarily comprised of property management contracts in the 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.

Loan servicing rights represent the fair value of servicing assets in our mortgage banking 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 $64.3 million for the year ended December 31, 2003, $3.8 million for the year ended December 31, 2002, $3.1 million for the period from February 20 (inception) to December 31, 2001 and $13.1 million for the period from January 1 to July 20, 2001. The estimated amortization expense for the five years ending December 31, 2008 approximates $20.3 million, $6.5 million, $5.1 million, $4.2 million and $3.4 million, respectively.

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9. Investments in and Advances to Unconsolidated Subsidiaries

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting and as of December 31, 2003 and 2002 include the following (dollars in thousands):

		December 31,	
	Interest	2003	2002
Global Innovation Partners, L.L.C.	4.9%	$ 14,037	$ 6,228
CB Richard Ellis Strategic Partners, L.P.	2.9%	10,353	10,690
CB Commercial/Whittier Partners, L.P.	50.0%	8,590	8,816
CB Richard Ellis Strategic Partners II, L.P.	3.4%	7,322	5,965
Ikoma CB Richard Ellis KK	22.8%	4,973	4,782
Building Technology Engineers	49.9%	2,553	1,931
Glades Plaza, L.P.	20.0%	2,451	
KB Opportunity Investors	45.0%	1,723	1,857
CB Richard Ellis/Pittsburgh, L.P.	50.0%	1,221	1,461
Other	*	15,138	8,478
Total		$ 68,361	$ 50,208

* Various interests with varying ownership rates.

Combined condensed financial information for our investments in and advances to unconsolidated subsidiaries are as follows (dollars in thousands):

Condensed Balance Sheets Information:

	December 31,	
	2003	2002
Current assets	$ 208,743	$ 127,635
Noncurrent assets	$ 2,040,138	$ 1,552,546

Current liabilities	$ 154,778	$ 108,463
Noncurrent liabilities	$ 969,993	$ 664,241
Minority interest	$ 4,600	$ 3,938

Condensed Statements of Operations Information:

	Year Ended December 31,		
	2003	**2002**	**2001**
Net revenue	$ 450,542	$ 349,121	$ 286,138
Income from operations	$ 111,585	$ 78,171	$ 60,259
Net income	$ 174,629	$ 81,498	$ 30,098

Included in other current assets in the accompanying consolidated balance sheet was a note receivable from our equity investment in Investor 1031, L.L.C. in the amount of $1.2 million as of December 31, 2002. This note was issued on June 20, 2002, bore interest at 20.0% per annum and was due for repayment on July 15, 2003. This note and related interest were paid in full during the second quarter of 2003.

Our investment management business involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage, appraisal and other

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professional services to these equity investees and earned revenues from these co-investments of $21.6 million, $22.4 million and $15.4 million during the years ended December 31, 2003, 2002 and 2001, respectively.

In March 2001, our wholly owned subsidiary, CB Richard Ellis Investors, L.L.C. (CBRE Investors), entered into a joint venture, Global Innovation Partners, with CalPERS. This joint venture targets real estate and private equity investments and expected opportunities created by the convergence of technology and real estate. The managing member of the joint venture is 50% owned by one of our subsidiaries. In connection with formation of the joint venture, CBRE Investors, CalPERS and some of our employees entered into an aggregate of $526.0 million of capital commitments to Global Innovations Partners, of which CalPERS committed an aggregate of $500.0 million.

10. Other Assets

The following table summarizes the items included in other assets (dollars in thousands):

	December 31,	
	2003	**2002**
Property held for sale	$ 50,615	$ 45,883
Deferred financing costs, net	29,898	20,467
Employee loans (1)	17,622	4,089
Property investments held pursuant to the Island Purchase Agreement (2)	7,457	
Cost investments	7,096	6,524
Long-term trade receivables, net	6,542	1,128
Notes receivable	5,640	4,943
Deposits	4,621	8,714
Miscellaneous	3,221	2,109
Total	$ 132,712	$ 93,857

(1) See Note 22 for additional information.
(2) Represents property investments held for the benefit of Island Fund pursuant to the Island Purchase Agreement pending the receipt of third party consents (see Note 3 for additional information).

11. Employee Benefit Plans

Stock Incentive Plans and Warrants.

2001 Stock Incentive Plan. Our 2001 stock incentive plan was adopted by our board of directors and our stockholders on June 7, 2001. The stock incentive plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. A total of 18,013,857 shares of Class A common stock have been reserved for issuance under the stock incentive plan, and 9,698,289 shares remained available for future issuance as of December 31, 2003. The number of shares issued or reserved pursuant to the stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. Class A common stock covered by awards that expire, terminate or lapse will again be available for option or grant under the stock incentive plan. No award may be granted under the stock incentive plan after June 7, 2011, but awards granted prior to June 7, 2011 may extend beyond that date. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

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In connection with the 2001 Merger, we offered and sold shares of our Class A common stock to certain of our employees that were designated by our board of directors in consultation with Ray Wirta, our Chief Executive Officer, and Brett White, our President. If each of these designated employees subscribed for a specified number of shares that was determined by our board of directors, they were then entitled to receive a grant of options to acquire our Class A common stock. As part of the 2001 Merger, we issued and sold 1,172,904 shares of our Class A common stock and granted 4,213,045 options to acquire our Class A common stock at an exercise price of $5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending on July 20, 2006.

On September 16, 2003, we issued to employees 2,427,714 options to acquire our Class A common stock at an exercise price of $5.77 per share and a term of ten years. These options vest and are exercisable in 20% annual increments over a five-year period ending September 16, 2008.

Since the 2001 Merger, there have been instances where employees have forfeited their options as a result of the termination of their employment with our company. In these instances, we have generally issued individual grants to replacement hires made as well as to retain certain key employees. Additionally, individual grants of options and issuances and sales of shares of Class A common stock have been made from time to time to key new hires. As of December 31, 2003, a total of 245,958 shares of our Class A common stock had been issued and sold and 847,488 options to acquire our Class A common stock had been granted to individuals under the instances described above since the 2001 Merger. These options have exercise prices of $5.77 per share, terms of ten years and vest and are exercisable in 20% annual increments over various five-year periods through November 2008.

Warrants. Pursuant to an agreement entered into in connection with the 2001 Merger, we issued to FSEP III and FSEP International warrants to acquire 708,019 shares of our Class B common stock at an exercise price of $10.825 per share in exchange for the cancellation of previously outstanding warrants to acquire 364,884 shares of CBRE common stock. Subject to limited exceptions, these warrants do not vest until August 26, 2007, expire on August 27, 2007 and will become fully vested and exercisable upon a change in control of our company.

Option Plans and Warrants of CBRE, our Predecessor. The options and warrants outstanding prior to the 2001 Merger were issued in connection with various acquisitions and employee stock-based compensation plans and had exercise prices that ranged from $10.00 to $36.75 with vesting periods that ranged up to 5 years and expired at various dates through August 2010.

At the effective time of the 2001 Merger, each holder of an option to acquire CBRE s common stock, whether or not vested, had the right to receive, in consideration for the cancellation of his or her options, an amount per share of common stock equal to the greater of (i) the amount by which $16.00 exceeded the exercise price of the option, if any, or (ii) $1.00, reduced in each case by applicable withholding taxes. Warrants to acquire 84,988 shares of CBRE beneficially owned by Ray Wirta and one of the other members of the CBRE board of directors prior to the 2001 Merger were cancelled in exchange for a cash payment of $1.00 per share of common stock underlying the warrants. Warrants held by non-employees, other than FS Equity Partners III, L.P. and FS Equity Partners International, L.P. who received warrants to acquire shares of CBRE s Class B common stock, were cancelled and no payments were made to such shareholders. As of December 31, 2001, there were no options or warrants outstanding to acquire CBRE s stock.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of our option plans and warrants, as well as our Predecessor s, is presented in the tables below:

	CB Richard Ellis Group			
	Shares	Weighted Average Exercise Price	Exercisable Shares	Weighted Average Exercise Price
Outstanding at February 20, 2001 (Inception)		$		
Granted	4,921,064	6.50		
Forfeited	(47,629)	5.77		
Outstanding at December 31, 2001	4,873,435	6.51		
Granted	343,297	5.77		
Forfeited	(485,806)	5.77		
Outstanding at December 31, 2002	4,730,926	6.53	769,261	$ 5.77
Granted	2,931,905	5.77		
Forfeited	(58,107)	5.77		
Outstanding at December 31, 2003	7,604,724	$ 6.24	1,538,575	$ 5.77

	Predecessor Company			
	Shares	Weighted Average Exercise Price	Exercisable Shares	Weighted Average Exercise Price
Outstanding at December 31, 2000	3,340,010	$ 21.25	1,824,665	$ 23.90
Exercised	(86,521)	12.89		
Forfeited/Expired	(93,370)	20.27		

Paid and/or cancelled as a result of the 2001 Merger	(3,160,119)	21.50
Outstanding at July 20, 2001		$

Option plans and warrants outstanding at December 31, 2003 and their related weighted average exercise price and life information is presented below:

	Outstanding Options and Warrants			Exercisable Options and Warrants	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$5.77	6,896,705	8.49	$ 5.77	1,538,575	$ 5.77
$10.825	708,019	3.66	10.825		
	7,604,724		$ 6.24	1,538,575	$ 5.77

Deferred Compensation Plan. Our deferred compensation plan (the DCP) historically has permitted a select group of management employees, as well as other highly compensated employees, to elect, immediately prior to the beginning of each calendar year, to defer receipt of some or all of their compensation for the next year until a

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

future distribution date and have it credited to one or more of several funds in the DCP. The DCP permits participants to elect in-service distributions, which may not begin less than three years following the election and post-employment distributions. There is limited flexibility to change distribution elections once made. A participant may elect to receive a distribution of his or her vested accounts at any time subject to a charge equal to 7.5% of the amount to be distributed. The investment alternatives available to participants in connection with their deferrals include two interest index funds and an insurance fund in which gains or losses on deferrals are measured by one or more of approximately 30 mutual funds. In addition, prior to the 2001 Merger, participants were entitled to invest their deferrals in stock fund units that entitled the participants to receive future distributions of shares of CBRE common stock, which stock fund units now represent the right to receive future distributions of shares of our common stock.

Each stock fund unit that was unvested prior to the 2001 Merger remained in participants accounts, but after the 2001 Merger was converted to the right to receive three shares of our Class A common stock. Subsequent to our reverse stock split which is expected to occur during May 2004, each stock fund unit will be converted to the right to receive 0.9238 shares of our Class A common stock. These unvested stock fund units have been accounted for as a deferred compensation asset and are being amortized as compensation expense over the remaining vesting period for such stock fund units in accordance with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* with $1.8 million charged to compensation expense for the years ended December 31, 2003 and 2002, and $0.9 million charged to compensation expense for the period from February 20 (inception) to December 31, 2001. The accompanying consolidated balance sheets include the unamortized balances totaling $1.4 million and $1.9 million in other current assets as of December 31, 2003 and 2002, respectively, and $1.4 million in other assets as of December 31, 2002. Subsequent to the 2001 Merger, no new deferrals have been allowed in stock fund units.

In 2001, we announced a match for the Plan Year 2000, effective July 2001, in the amount of $8.0 million to be invested in an interest bearing account on behalf of participants. The 2000 Company Match vests at 20% per year and will be fully vested by December 2005. The related compensation expense is being amortized over the vesting period. The amounts charged to expense for the 2000 Company match were $1.7 million for the years ended December 31, 2003 and 2002, $0.7 million for the period from February 20 (inception) to December 31, 2001 and $0.2 million for the period from January 1 to July 20, 2001.

Included in our accompanying consolidated balance sheets is an accumulated non-stock liability of $138.0 million and $106.3 million at December 31, 2003 and 2002, respectively, and the assets (in the form of insurance) set aside to cover the liability of $76.4 million and $63.6 million as of December 31, 2003 and 2002, respectively. In addition, our stock fund unit deferrals included in additional paid-in capital totaled $18.1 million and $18.2 million at December 31, 2003 and 2002, respectively.

Early in the fourth quarter of 2003, we announced that effective January 1, 2004, we will close the DCP to new participants. Currently, the DCP is accepting compensation deferrals from participants who have a balance, meet the eligibility requirements and elect to participate, up to a maximum annual contribution amount of $250,000 per participant. We are currently reviewing the future status of this plan.

Stock Purchase Plans. Prior to the 2001 Merger, CBRE had restricted stock purchase plans covering select key executives including senior management. A total of 500,000 and 550,000 shares of common stock were reserved for issuance under CBRE s 1999 and 1996 Equity Incentive Plans, respectively. The shares were issued to senior executives for a purchase price equal to the greater of $18.00 and $10.00 per share or fair market value, respectively. The purchase price for these shares was paid either in cash or by delivery of a full recourse promissory note. All

promissory notes related to the 1999 Equity Incentive Plan were repaid as part of the 2001 Merger. The majority of the notes related to the 1996 Equity Incentive Plan were also repaid, with the remaining unpaid outstanding balance of $0.6 million as of December 31, 2003 and 2002, included in notes receivable from

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sale of stock in the accompanying consolidated statements of stockholders equity. As part of the 2001 Merger, the CBRE shares related to these outstanding promissory notes were exchanged for three shares of our Class B common stock.

Bonuses. We have bonus programs covering select key employees, including senior management. Awards are based on the position and performance of the employee and the achievement of pre-established financial, operating and strategic objectives. The amounts charged to expense for bonuses were $51.8 million for the year ended December 31, 2003, $40.2 million for the year ended December 31, 2002, $18.0 million for the period from February 20 (inception) to December 31, 2001 and $16.5 million for the period from January 1 to July 20, 2001.

401(k) Plans. Our CB Richard Ellis 401(k) Plan (401(k) Plan) is defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. Generally, our U.S. employees are eligible to participate in the plan if the employee is at least 21 years old. The 401(k) Plan provides for participant contributions as well as discretionary employer contributions. A participant is allowed to contribute to the 401(k) Plan from 1% to 15%, in whole percentages, of his or her compensation, subject to limits imposed by the U.S. Internal Revenue Code. Each year, we determine the amount of employer contributions, if any, we will contribute to the 401 (k) Plan based on the performance and profitability of our consolidated U.S. operations. Our contributions for the year are allocated to participants who are actively employed on the last day of the plan year in proportion to each participant s pre-tax contributions for that year, up to 5% of the participant s compensation. In connection with the 401(k) Plan, we incurred $2.2 million for the year ended December 31, 2003, no expense for the year ended December 31, 2002, $0.8 million for the period from February 20 (inception) to December 31, 2001 and no expense for the period from January 1 to July 20, 2001.

In connection with the 2001 Merger, each share of common stock of CBRE formerly held by the 401(k) Plan and credited to participant accounts was exchanged for $16.00 in cash. In addition, the 401(k) Plan was amended to eliminate the common stock of CBRE as an investment option within the 401(k) Plan after July 20, 2001. The cash received for the shares of CBRE common stock was available for reinvestment in one or more of the investment alternatives available within the 401(k) Plan in accordance with the terms of the plan, including a new company stock fund in which employees could invest on a one-time basis in our Class A shares of common stock. Subsequent to the 2001 Merger, participants are no longer entitled to purchase additional shares of our Class A or Class B common stock for allocation to their account balances.

In connection with the Insignia Acquisition, we assumed Insignia s existing 401(k) Retirement Savings Plan (Insignia 401(k) Plan) and its 401(k) Restoration Plan.

The Insignia 401(k) Plan covered substantially all Insignia employees in the U.S. Insignia made contributions equal to 25% of the employees contributions up to a maximum of 6% of the employees compensation and participants fully vested in employees contributions after five years. Insignia s contribution was discontinued effective July 23, 2003. Upon the close of the Insignia Acquisition, participants in the Insignia 401(k) Plan were required, instead, to join our 401(k) Plan. Currently, only loan payments are being accepted into the former Insignia 401(k) Plan until we receive IRS approval to terminate the plan and transfer plan balances into our 401(k) Plan.

The 401(k) Restoration Plan allowed designated executives of Insignia and certain participating affiliated employees in the Insignia 401(k) Plan to defer the receipt of a portion of their compensation in excess of the amount of compensation that was permitted to be contributed to the

Insignia 401(k) Plan. This plan ceased to accept deferrals on July 23, 2003.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension Plans. The London-based firm of Hillier Parker May & Rowden, which we acquired in 1998, had a contributory defined benefit pension plan. A subsidiary of Insignia, which we acquired in connection with the Insignia Acquisition in 2003, had a contributory defined benefit pension plan in the U.K. Our subsidiaries based in the U.K. maintain these 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 and as required by applicable laws and regulations. Pension expense totaled $7.8 million for the year ended December 31, 2003, $3.6 million for the year ended December 31, 2002, $1.4 million for the period February 20 (inception) to December 31, 2001, and $0.9 million for the period from January 1 to July 20, 2001.

The following table sets forth a reconciliation of the benefit obligation, plan assets, plan s funded status and amounts recognized in the accompanying consolidated balance sheets for our defined benefit pension plans (in thousands):

	Year Ended December 31,	
	2003	**2002**
Change in benefit obligation		
Benefit obligation at beginning of period	$ 96,734	$ 74,418
Service cost	6,248	5,578
Interest cost	7,573	4,764
Actuarial loss	7,472	3,997
Insignia Acquisition	64,392	
Benefits paid, net of plan participants contributions	(1,942)	(713)
Foreign currency translation	19,709	8,690
Benefit obligation at end of period	$ 200,186	$ 96,734
Change in plan assets		
Fair value of plan assets at beginning of period	$ 76,430	$ 80,950
Actual return on plan assets	18,317	(13,777)
Company contributions	2,850	2,299
Insignia Acquisition	45,295	
Benefits paid, net of plan participants contributions	(1,942)	(713)
Foreign currency translation	15,008	7,671
Fair value of plan assets at end of period	$ 155,958	$ 76,430
Funded status	$ (44,228)	$ (20,304)
Unrecognized net actuarial loss	29,331	33,350
Company contributions in the post-measurement period	485	530
Net amount recognized	$ (14,412)	$ 13,576

Net amount recognized in the consolidated balance sheets		
Accrued benefit liability	$ (35,998)	$ (10,766)
Accumulated other comprehensive loss	21,586	24,342
	$ (14,412)	$ 13,576

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted average assumptions used to determine our projected benefit obligation were as follows:

	Year Ended December 31,	
	2003	**2002**
Discount rate	5.60%	5.60%
Expected return on plan assets	7.90%	8.20%
Rate of compensation increase	4.40%	4.30%

Weighted average assumptions used to determine our net periodic pension cost were as follows:

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	**2002**	**2001**	**2001**
Discount rate	5.56%	6.00%	6.00%	6.00%
Expected return on plan assets	7.88%	8.00%	7.50%	7.75%
Rate of compensation increase	4.24%	4.50%	4.75%	5.00%

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

CB Richard Ellis Group		Predecessor Company
Year Ended	Period From February	Period From January 1

	December 31,		20 (inception) to December 31,	to July 20,
	2003	2002	2001	2001
Service cost	$ 6,248	$ 5,578	$ 2,325	$ 2,875
Interest cost	7,573	4,764	2,059	2,316
Expected return on plan assets	(8,023)	(6,767)	(2,945)	(4,257)
Amortization of unrecognized net gain	2,024			
Net periodic pension cost	$ 7,822	$ 3,575	$ 1,439	$ 934

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Debt

Total debt consists of the following (dollars in thousands):

	December 31,	
	2003	**2002**
Long-Term Debt:		
Senior secured term loans, with interest ranging from 4.40% to 7.50%, due from 2003 through 2008	$ 297,500	$ 220,975
11 1/4% Senior Subordinated Notes, net of unamortized discount of $2.8 million and $3.1 million at December 31, 2003 and 2002, respectively, due in 2011	226,173	225,943
9 3/4% Senior Notes due in 2010	200,000	
16% Senior Notes, net of unamortized discount of $2.8 million and $5.1 million at December 31, 2003 and 2002, respectively, due in 2011	35,472	61,863
Non-recourse mortgage debt related to property held for sale with interest at one-month Yen LIBOR plus 3.50% and a maturity date of July 31, 2008	41,753	
Capital lease obligations, mainly for automobiles and telephone equipment, with interest ranging from 6.50% to 9.74%, due through 2007	259	763
Other	1,548	171
Subtotal	802,705	509,715
Less current maturities of long-term debt	11,285	10,711
Total long-term debt	791,420	499,004
Short-Term Borrowings:		
Warehouse Line of Credit, with interest at 1.00% over the Residential Funding Corporation base rate with a maturity date of August 31, 2004	230,790	63,140
Non-recourse mortgage debt related to property held for sale with interest at one-month Yen LIBOR plus 3.50% and a maturity date of June 18, 2003		40,005
Insignia acquisition loan notes, with interest ranging from 1.53% to 3.00%, due on demand	12,191	
Westmark Senior Notes, with interest ranging from 4.40% to 9.00%, due on demand	12,129	12,129
Euro cash pool loan, with interest at 2.50% over the applicable HSBC base rate and no stated maturity date	11,517	7,904
Other	3,510	16
Total short-term borrowings	270,137	123,194
Add current maturities of long-term debt	11,285	10,711
Total current debt	281,422	133,905
Total debt	$ 1,072,842	$ 632,909

Future annual aggregate maturities of total consolidated debt at December 31, 2003 are as follows (dollars in thousands): 2004 $281,422; 2005 $10,367; 2006 $10,017; 2007 $10,017; 2008 $299,270; and $461,749 thereafter.

In connection with the 2001 Merger, we entered into a credit agreement (the Credit Facility) with CSFB and other lenders. In connection with the Insignia Acquisition, we entered into an amended and restated credit agreement with CSFB and other lenders. On October 14, 2003, we refinanced all of the outstanding loans under that agreement. As part of this refinancing, we entered into a new amended and restated credit agreement. The

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prior credit facilities were, and the current amended and restated credit facilities continue to be, jointly and severally guaranteed by us and each of our domestic subsidiaries and are secured by a pledge of substantially all of our assets.

The Credit Facility entered into in connection with the 2001 Merger included the following: (1) a Tranche A term facility of $50.0 million maturing on July 20, 2007, which was fully drawn in connection with the 2001 Merger; (2) a Tranche B term facility of $185.0 million maturing on July 18, 2008, which was fully drawn in connection with the 2001 Merger; and (3) a revolving line of credit of $90.0 million, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. Borrowings under the Tranche A term facility and revolving facility bore interest at varying rates based on our option, at either the applicable LIBOR rate plus 2.50% to 3.25% or the alternate base rate plus 1.50% to 2.25%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which was defined in the credit agreement. The alternate base rate is higher of (1) CSFB s prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. Borrowings under the Tranche B term facility bore interest at varying rates based on our option at either the applicable LIBOR plus 3.75% or the alternate base rate plus 2.75%.

The amended and restated credit facilities entered into in connection with the Insignia Acquisition included the following: (1) a Tranche A term facility of $50.0 million maturing on July 20, 2007; (2) a Tranche B term facility of $260.0 million maturing on July 18, 2008, $75.0 million of which was drawn in connection with the Insignia Acquisition; and (3) a revolving line of credit of $90.0 million, including revolving credit loans, letters of credit and a swingline loan facility, maturing on July 20, 2007. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche A term facility and revolving facility bore interest at varying rates based on our option, at either the applicable LIBOR plus 3.00% to 3.75% or the alternate base rate plus 2.00% to 2.75%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA, which is defined in the amended and restated credit agreement. After the amendment and restatement in connection with the Insignia Acquisition, borrowings under the Tranche B term facility bore interest at varying rates based on our option at either the applicable LIBOR plus 4.25% or the alternate base rate plus 3.25%.

In connection with the October 14, 2003 refinancing of our credit facilities and the signing of a new amended and restated credit agreement, the former Tranche A term facility and Tranche B term facility were combined into a new single term loan facility. The new term loan facility, of which $300.0 million was drawn on October 14, 2003, requires quarterly principal payments of $2.5 million through September 30, 2008 and matures on December 31, 2008. Borrowings under the new term loan facility bear interest at varying rates based on our option at either LIBOR plus 3.25% or the alternate base rate plus 2.25%. The maturity date and interest rate for borrowings under the revolving credit facility remain unchanged in the new amended and restated credit agreement. The revolving line of credit requires the repayment of any outstanding balance for a period of 45 consecutive days commencing on any day in the month of December of each year as determined by us. We repaid our revolving credit facility as of July 23, 2003 and November 5, 2002, and at December 31, 2003 and 2002, we had no revolving line of credit principal outstanding. At December 31, 2003, we had an aggregate of $10.8 million in letters of credit outstanding under the revolving credit facility, which reduces the amount we may borrow under the revolving credit facility. The total amounts outstanding under the senior secured credit facilities included in senior secured term loans and current maturities of long-term debt in the accompanying consolidated balance sheets were $297.5 million and $221.0 million as of December 31, 2003 and 2002, respectively.

On May 22, 2003, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued $200.0 million in aggregate principal amount of 9 3/4% Senior Notes due May 15, 2010 The proceeds of this issuance were placed in escrow pending the completion of the Insignia Acquisition on July 23, 2003, on which date the

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

proceeds were released from escrow in order to partially fund the acquisition. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9 3/4% Senior Notes. The 9 3/4% 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 9 3/4% Senior Notes are jointly and severally guaranteed on a senior basis by us and substantially all our domestic subsidiaries. Interest accrues at a rate of 9 3/4% per year and is payable semi-annually in arrears on May 15 and November 15. The 9 3/4% Senior Notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we may redeem up to 35.0% of the originally issued amount of the 9 3/4% Senior Notes at 109 3/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 9 3/4% Senior Notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9 3/4% Senior Notes included in the accompanying consolidated balance sheet was $200.0 million as of December 31, 2003.

In order to partially finance the 2001 Merger, Blum CB issued $229.0 million in aggregate principal amount of 11 1/4% Senior Subordinated Notes due June 15, 2011 for approximately $225.6 million, net of discount, on June 7, 2001. CBRE assumed all obligations with respect to the 11 1/4% Senior Subordinated Notes in connection with the 2001 Merger on July 20, 2001. The 11 1/4% Senior Subordinated Notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. The 11 1/4% Senior Subordinated Notes require semi-annual payments of interest in arrears on June 15 and December 15 and are redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. In addition, before June 15, 2004, we may redeem up to 35.0% of the originally issued amount of the notes at 111 1/4% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings. In the event of a change of control, we are obligated to make an offer to purchase the 11 1/4% Senior Subordinated Notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 11 1/4% Senior Subordinated Notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $226.2 million and $225.9 million as of December 31, 2003 and 2002, respectively.

Also in connection with the 2001 Merger, we issued $65.0 million in aggregate principal amount of 16% Senior Notes due July 20, 2011. The 16% Senior Notes are unsecured obligations, senior to all of our current and future unsecured indebtedness but subordinated to all of our current and future secured indebtedness. Interest accrues at a rate of 16% per year and is payable quarterly in arrears. Interest may be paid in kind to the extent our ability to pay cash dividends is restricted by the terms of our amended and restated credit agreement. Additionally, interest in excess of 12.0% may, at our option, be paid in kind through July 2006. We elected to pay in kind interest in excess of 12.0% or 4.0%, that was payable on April 20, 2002, July 20, 2002, October 20, 2002, January 20, 2003 and April 20, 2003. The 16% Senior Notes are redeemable at our option, in whole or in part, at 116.0% of par commencing on July 20, 2001 and at declining prices thereafter. On October 27, 2003 and December 29, 2003, we redeemed $20.0 million and $10.0 million, respectively, in aggregate principal amount of the 16% Senior Notes and paid $2.9 million of premiums in connection with these redemptions. In the event of a change in control, we are obligated to make an offer to purchase all of the outstanding 16% Senior Notes at 101.0% of par. The amount of the 16% Senior Notes included in the accompanying consolidated balance sheets, net of unamortized discount, was $35.5 million and $61.9 million as of December 31, 2003 and 2002, respectively.

The 16% Senior Notes are solely our obligation to repay. CBRE has neither guaranteed nor pledged any of its assets as collateral for the 16% Senior Notes and is not obligated to provide cash flow to us for repayment of these 16% Senior Notes. However, we have no substantive assets or operations other than our investment in CBRE to meet any required principal and interest payments on the 16% Senior Notes. We will depend on CBRE s cash flows to fund principal and interest payments as they come due.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our amended and restated credit agreement and the indentures governing our 9 3/4% Senior Notes, our 11 1/4% Senior Subordinated Notes and our 16% Senior Notes each contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or 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. The amendment and restatement of the credit agreement modified the financial covenant ratios to provide a greater degree of flexibility than the prior credit agreement. The amended and restated credit agreement requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of earnings before interest, taxes, depreciation and amortization to funded debt. The credit agreement required, and after the amendment and restatement continues to require, us to pay a facility fee based on the total amount of the unused commitment.

During 2001, a joint venture that we consolidate incurred $37.2 million of non-recourse mortgage debt secured by a real estate investment. During the third quarter of 2003, the maturity date on this non-recourse debt was extended to July 31, 2008. In our accompanying consolidated balance sheets, this debt comprised $41.8 million of our other long-term debt at December 31, 2003 and $40.0 million of our other short-term borrowings at December 31, 2002. Additionally, during the third quarter of 2003, this joint venture incurred an additional $1.9 million of non-recourse mortgage debt with a maturity date of June 15, 2004. At December 31, 2003, $2.0 million of this non-recourse debt is included in short-term borrowings in the accompanying consolidated balance sheet.

We had short-term borrowings of $270.1 million and $123.2 million with related average interest rates of 2.7% and 4.3% as of December 31, 2003 and 2002, respectively.

One of our subsidiaries has a credit agreement with Residential Funding Corporation (RFC) for the purpose of funding mortgage loans that will be resold. On December 16, 2002, we entered into a Third Amended and Restated Warehousing Credit and Security Agreement effective December 20, 2002. The agreement provided for a revolving warehouse line of credit of $200.0 million, bore interest at the lower of one-month LIBOR or 2.0% (RFC Base Rate) plus 1.0% and expired on August 31, 2003. On June 25, 2003, the agreement was modified to provide a temporary revolving line of credit increase of $200.0 million that resulted in a total line of credit equaling $400.0 million, which expired on August 30, 2003 and changed the RFC Base Rate to one-month LIBOR. By amendment on August 29, 2003, the expiration date of the agreement was extended to September 25, 2003. On September 26, 2003, we entered into a Fourth Amended and Restated Warehousing Credit and Security Agreement. The agreement provides for a revolving line of credit of up to $200.0 million, bears interest at one-month LIBOR plus 1.0% and expires on August 31, 2004. By amendment on November 14, 2003, the agreement was further modified to provide a revolving line of credit increase of $50.0 million that resulted in a total line of credit equaling $250.0 million.

During the years ended December 31, 2003 and 2002, respectively, we had a maximum of $272.5 million and $309.0 million revolving line of credit principal outstanding with RFC. At December 31, 2003 and 2002, respectively, we had a $230.8 million and a $63.1 million warehouse line of credit outstanding, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had a $230.8 million and a $63.1 million warehouse receivable, representing mortgage loans funded through the line of credit that had not been purchased as of December 31, 2003 and 2002, respectively, which are also included in the accompanying consolidated balance sheets.

Insignia, which we acquired in July 2003, issued acquisition loan notes in connection with 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

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. At December 31, 2003, $12.2 million of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheet.

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

Our subsidiaries in Europe have had a Euro cash pool loan since 2001. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by the bank plus 2.5%. The amount of the Euro cash pool loan included in short-term borrowings in the accompanying consolidated balance sheets was $11.5 million and $7.9 million as of December 31, 2003 and 2002, respectively.

One of our subsidiaries has a credit agreement with JP Morgan Chase. The credit agreement provides for a revolving line of credit of up to $20.0 million, bears interest at 1.0% in excess of the bank s cost of funds and expires on May 28, 2004. At December 31, 2003 and 2002, no amounts were outstanding under this line of credit.

In connection with the Insignia Acquisition, on July 23, 2003, we immediately repaid Insignia s outstanding revolving credit facility of $28.0 million and subordinated credit facility of $15.0 million.

13. 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.

The following is a schedule by year of future minimum lease payments for noncancellable operating leases as of December 31, 2003 (dollars in thousands):

2004	$ 96,123
2005	89,961
2006	77,203
2007	69,539
2008	64,555
Thereafter	312,881
Total minimum payments required	$ 710,262

The total minimum payments for noncancellable operating leases were not reduced by the minimum sublease rental income of $4.7 million due in the future under noncancellable subleases.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Substantially all leases require us to pay maintenance costs, insurance and property taxes. The composition of total rental expense under noncancellable operating leases consisted of the following (dollars in thousands):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Minimum rentals	$ 81,361	$ 68,711	$ 27,203	$ 32,831
Less sublease rentals	(2,134)	(1,157)	(500)	(551)
	$ 79,227	$ 67,554	$ 26,703	$ 32,280

In connection with the sale of real estate investment assets by Insignia to Island on July 23, 2003 (See Note 3), Insignia agreed to maintain letter of credit support for real estate investment assets that were subject to the purchase agreement until the earlier of (1) the third anniversary of the completion of the sale, (2) the date on which the letter of credit is no longer required pursuant to the applicable real estate investment asset agreement or (3) the completion of a sale of the relevant underlying real estate investment asset. As of December 31, 2003, an aggregate of approximately $10.2 million of this letter of credit support remained outstanding under the purchase agreement. Also in connection with the sale, Insignia agreed to maintain a $1.3 million guarantee of a repayment obligation with respect to one of the real estate investment assets. Island agreed to reimburse us for 50% of any draws against these letters of credit or the repayment guarantee while they are outstanding and delivered a letter of credit to us in the amount of approximately $2.9 million as security for Island s reimbursement obligation. As a result of this reimbursement obligation, we effectively retain potential liability for 50% of any future draws against these letters of credit and the repayment guarantee. However, there can be no assurance that Island will be able to reimburse us in the event of any draws against the letters of credit or the repayment guarantee or that Island s future reimbursement obligations will not exceed the amount of the letter of credit provided to us by Island.

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

We had outstanding letters of credit totaling $22.6 million as of December 31, 2003, excluding letters of credit related to our outstanding indebtedness. Approximately $10.8 million of these letters of credit secure certain office leases and are outstanding pursuant to the revolving credit facility under our amended and restated credit agreement. An additional $10.8 million of these letters of credit were issued pursuant to the terms of the purchase agreement with Island described above and are outstanding pursuant to a reimbursement agreement with the Bank of Nova Scotia. Under this agreement, we may issue up to a maximum of approximately $11.0 million of letters of credit outstanding at any one time and the outstanding letters of credit are secured by the same assets of ours that secure our amended and restated credit agreement. The remaining outstanding letters of credit have been issued pursuant to a credit agreement with Wells Fargo Bank for the Fannie Mae letter of credit described above. The outstanding letters of credit as of December 31, 2003 expire at varying dates through

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

August 31, 2004. However, we are obligated to renew the letters of credit related to certain office leases until 2023, the letters of credit related to the Island Purchase Agreement until as late as July 23, 2006 and the Fannie Mae letter of credit until our obligation to cover potential credit losses is satisfied.

We had guarantees totaling $9.0 million as of December 31, 2003, which consisted primarily of guarantees of property debt as well as the obligations to Island and Fannie Mae discussed above. Approximately $4.8 million of the guarantees are related to investment activity that is scheduled to expire in October 2008. Approximately $1.7 million of the guarantees are related to office leases in Europe and Asia. These guarantees will expire at the end of the lease terms. The guarantee obligation related to the agreement with Fannie Mae discussed above will expire in December 2004. The guarantee related to the Island Purchase Agreement will expire on the May 30, 2004 maturity date of the underlying loan agreement, unless such loan is renewed, modified or extended prior to such date to provide for a later maturity date.

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 December 31, 2003, we had committed $26.6 million to fund future co-investments.

14. Income Taxes

Our tax (benefit) provision consisted of the following (in thousands):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Federal:				
Current	$ (5,335)	$ 10,204	$ 11,747	$
Deferred	(6,637)	6,232	(3,252)	(911)
Change in valuation allowances			796	

	(11,972)	16,436	9,291	(911)
State:				
Current		1,824	3,173	1,600
Deferred	(1,613)	378	(494)	(658)
	(1,613)	2,202	2,679	942
Foreign:				
Current	6,642	12,920	10,137	1,079
Deferred	667	(1,452)	(4,091)	
	7,309	11,468	6,046	1,079
	$ (6,276)	$ 30,106	$ 18,016	$ 1,110

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a reconciliation, stated as a percentage of pre-tax income, of the U.S. statutory federal income tax rate to our effective tax rate on income from operations:

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Federal statutory tax rate	(35)%	35%	35%	(35)%
Permanent differences	1	15	5	25
State taxes, net of federal benefit	(3)	3	5	2
Taxes on foreign income which differ from the U.S. statutory rate	21	9	4	11
State NOLs not benefited	1			
Change in valuation allowances			2	
Effective tax rate	(15)%	62%	51%	3%

The domestic component of (loss) income before (benefit) provision for income taxes included in the accompanying consolidated statements of operations was $(31.6) million for the year ended December 31, 2003, $32.3 million for the year ended December 31, 2002, $22.6 million for the period from February 20 (inception) to December 31, 2001 and $(21.5) million for the period from January 1 to July 20, 2001. The international component of (loss) income before (benefit) provision for income taxes was $(9.4) million for the year ended December 31, 2003, $16.5 million for the year ended December 31, 2002, $12.8 million for the period from February 20 (inception) to December 31, 2001 and $(11.4) million for the period from January 1 through July 20, 2001.

Cumulative tax effects of temporary differences are shown below at December 31, 2003 and 2002 (in thousands):

	December 31,

	2003	2002
Asset (Liability)		
Property and equipment	$ 6,738	$ 10,960
Bad debts and other reserves	(17,768)	(14,228)
Capitalized costs and intangibles	(4,113)	(7,003)
Bonus, unexercised restricted stock, deferred compensation	80,048	57,780
Investment	5,622	4,189
Net operating loss (NOL), alternative minimum tax credit and charitable contribution carryforwards	36,200	5
Unconsolidated affiliates	5,266	5,283
Pension obligation	14,492	7,303
Acquisitions	3,237	
All other	18,892	4,702
Net deferred tax assets before valuation allowances	148,614	68,991
Valuation allowances	(58,754)	(13,892)
Net deferred tax assets	$ 89,860	$ 55,099

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 were as follows (in thousands):

	December 31,	
	2003	2002
Total deferred tax assets	$ 213,164	$ 103,302
Deferred tax asset valuation allowances	(58,754)	(13,892)
	154,410	89,410
Total deferred tax liabilities	(64,550)	(34,311)
Net deferred tax assets	$ 89,860	$ 55,099

As a result of the Insignia Acquisition and the current year s tax loss, at December 31, 2003, we had U.S. federal NOL carryforwards of approximately $67.7 million, translating to a deferred tax asset before valuation allowance of $23.7 million. Approximately $3.8 million of these NOLs begin to expire in 2010 and the remainder begins to expire in 2019. There were also deferred tax assets of approximately $9.8 million related to state NOLs. The utilization of NOLs may be subject to certain limitations under U.S. federal and state laws.

Management determined that as of December 31, 2003, $58.8 million of deferred tax assets do not satisfy the recognition criteria set forth in SFAS No. 109. Accordingly, a valuation allowance has been recorded for this amount. The valuation allowance was recorded against deferred tax assets during the 2001 Merger and the Insignia Acquisition, with the offset to goodwill. Accordingly, any tax benefits subsequently recognized will reduce goodwill.

A deferred U.S. tax liability has not been provided on the unremitted earnings of foreign subsidiaries because it is our intent to permanently reinvest these earnings. Unremitted earnings of foreign subsidiaries, which have been, or are intended to be, permanently invested in accordance with APB No. 23, *Accounting for Income Taxes Special Areas*, aggregated $79.0 million at December 31, 2003. The determination of the tax liability upon repatriation is not practicable.

15. Stockholders Equity

We are authorized to issue 425,000,000 shares of common stock, including 325,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock, both with $0.01 par value per share. The holders of Class A common stock are entitled to one vote for each share. Holders of Class B common stock are entitled to ten votes for each share. There are no differences between the two classes of common

stock other than the number of votes. The holders of Class A and Class B common stock shall share equally on a per-share basis all dividends and other cash, stock or property distributions.

Upon written request of any holder of Class B common stock, any shares will be automatically converted on a share-for-share basis into the same number of shares of Class A common stock. In addition, upon any transfer, sale or other disposition of shares of Class B common stock, other than transfers to certain permitted transferees, such shares shall be converted into shares of Class A common stock on a share-for-share basis. Also, upon completion of an underwritten public offering in which we become listed on a national securities exchange, all outstanding shares of Class B common stock shall automatically be converted into shares of Class A common stock on a share-for-share basis.

As long as Class B common stock is outstanding, if a holder of Class B common stock purchases any shares of Class A common stock, the holder may convert the Class A common shares on a share-for-share basis into the same number of shares of Class B common stock.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. (Loss) Earnings Per Share Information

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

	CB Richard Ellis Group									Predecessor Company		
	Year Ended December 31,						Period From February 20 (inception) to December 31,			Period From January 1 to July 20,		
	2003			2002			2001			2001		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount
Basic (loss) earnings per share:												
Net (loss) income applicable to common stockholders	$ (34,704)	50,918,572	$ (0.68)	$ 18,727	41,640,576	$ 0.45	$ 17,426	21,741,351	$ 0.80	$ (34,020)	21,306,584	$ (1.60)
Diluted (loss) earnings per share:												
Net (loss) income applicable to common stockholders	$ (34,704)	50,918,572		$ 18,727	41,640,576		$ 17,426	21,741,351		$ (34,020)	21,306,584	
Dilutive effect of contingently issuable shares					545,413			179,564				
Net (loss) income applicable to common stockholders	$ (34,704)	50,918,572	$ (0.68)	$ 18,727	42,185,989	$ 0.44	$ 17,426	21,920,915	$ 0.79	$ (34,020)	21,306,584	$ (1.60)

The following items were not included in the computation of diluted (loss) earnings per share because their exercise price was at or above fair market value during such periods:

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Stock options				
Outstanding	6,896,705	4,022,907	4,165,416	2,562,150
Price ranges	$5.77	$5.77	$5.77	$0.38 - $36.75
Expiration ranges	7/20/11 - 11/5/13	7/20/11 - 7/31/12	7/20/11	6/8/04 - 8/31/10
Stock warrants				
Outstanding	708,019	708,019	708,019	597,969
Price	$10.825	$10.825	$10.825	$30.00
Expiration date	8/27/07	8/27/07	8/27/07	8/28/04

All options and warrants for the year ended December 31, 2003 and for the period from January 1 to July 20, 2001 were anti-dilutive since we reported a net loss in these periods. Any assumed exercise of options or warrants would have been anti-dilutive as they would have resulted in a lower loss per share.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. 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 $626.3 million and $414.6 million at December 31, 2003 and 2002, respectively.

18. 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. 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: This balance includes cash and cash equivalents with maturities of less than three months. The carrying amount approximates fair value due to the short maturity of these instruments.

Short-Term Borrowings: The majority of this balance represents the warehouse line of credit. Due to their short-term maturities and variable interest rates, fair value approximates carrying value (See Note 12).

11 1/4% Senior Subordinated Notes: Based on dealers quotes, the estimated fair value of the 11 1/4% Senior Subordinated Notes is $256.5 million and $208.4 million at December 31, 2003 and 2002, respectively. Their actual carrying value totaled $226.2 million and $225.9 million at December 31, 2003 and 2002, respectively (See Note 12).

9 3/4% Senior Notes: Based on dealers quotes, the estimated fair value of the 9 3/4% Senior Notes is $222.0 million at December 31, 2003. Their actual carrying value totaled $200.0 million at December 31, 2003 (See Note 12).

16% Senior Notes: There was no trading activity for the 16% Senior Notes, which are due in 2011. Their carrying value totaled $35.5 million and $61.9 million at December 31, 2003 and 2002, respectively (see Note 12).

Senior Secured Terms Loans & Other Long-Term Debt: Estimated fair values approximate respective carrying values because the majority of these instruments are based on variable interest rates (see Note 12).

19. Merger-Related and Other Nonrecurring Charges

We recorded merger-related charges of $36.8 million for the year ended December 31, 2003 in connection with the Insignia Acquisition. The charges consisted of the following (dollars in thousands):

	2003 Charge	Utilized to Date	To be Utilized
Lease termination costs	$ 15,805	$ 977	$ 14,828
Severance	7,042	7,042	
Change of control payments	6,525	6,525	
Consulting costs	2,738	2,738	
Other	4,707	4,707	
Total merger-related charges	$ 36,817	$ 21,989	$ 14,828

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the period from February 20 (inception) to December 31, 2001, we recorded nonrecurring pre-tax charges totaling $6.4 million, which mainly related to the write-off of e-business investments. During the period from January 1 to July 20, 2001, CBRE recorded merger-related and other nonrecurring charges of $22.1 million, which included merger-related costs incurred of $16.4 million, severance costs incurred of $2.8 million related to CBRE s cost reduction program implemented in May 2001, as well as the write-off of an e-business investment of $2.9 million.

20. Guarantor and Nonguarantor Financial Statements

The 9 3/4% Senior Notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. In addition, the 11 1/4% Senior Subordinated Notes are jointly and severally guaranteed on a senior subordinated basis by us and substantially all of our domestic subsidiaries. See Note 12 for additional information on the 9 3/4% Senior Notes and the 11 1/4% Senior Subordinated Notes.

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of December 31, 2003 and 2002; condensed consolidating statements of operations for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001, and condensed consolidating statements of cash flows for the years ended December 31, 2003 and 2002, the period from February 20 (inception) to December 31, 2001 and the period from January 1 to July 20, 2001 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 intercompany balances and transactions. The preliminary purchase accounting adjustments associated with the Insignia Acquisition have been recorded in the accompanying consolidated financial statements. The condensed consolidated balance sheet as of December 31, 2003 reflects the allocation of goodwill based upon the estimated fair value of Insignia s acquired reporting units (See Note 3 for additional information).

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 3,008	$ 17	$ 148,752	$ 12,104	$	$ 163,881
Restricted cash			12,545	2,354		14,899
Receivables, less allowance for doubtful accounts	27	18	114,215	208,156		322,416
Warehouse receivable			230,790			230,790
Prepaid expenses and other current assets	63,557	42,151	18,957	22,998	(40,667)	106,996
Total current assets	66,592	42,186	525,259	245,612	(40,667)	838,982
Property and equipment, net			66,280	47,289		113,569
Goodwill			572,376	247,182		819,558
Other intangible assets, net			101,326	30,405		131,731
Deferred compensation assets		76,389				76,389
Investment in and advances to unconsolidated subsidiaries		4,973	50,732	12,656		68,361
Investment in consolidated subsidiaries	321,451	252,399	199,393		(773,243)	
Intercompany loan receivable		787,009			(787,009)	
Deferred tax assets, net	32,179					32,179
Other assets, net	2,555	27,819	44,779	57,559		132,712
Total assets	$ 422,777	$ 1,190,775	$ 1,560,145	$ 640,703	$ (1,600,919)	$ 2,213,481
Current Liabilities:						
Accounts payable and accrued expenses	$ 1,187	$ 7,614	$ 64,392	$ 116,594	$	$ 189,787
Inter-company payable	40,667				(40,667)	
Compensation and employee benefits payable			98,160	50,714		148,874
Accrued bonus and profit sharing			112,365	87,978		200,343
Short-term borrowings:						
Warehouse line of credit			230,790			230,790
Other			25,480	13,867		39,347
Total short-term borrowings			256,270	13,867		270,137
Current maturities of long-term debt		10,000	1,029	256		11,285
Other current liabilities	12,522			469		12,991

Total current liabilities	54,376	17,614	532,216	269,878	(40,667)	833,417
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		226,173				226,173
Senior secured term loans		287,500				287,500
9 3/4% senior notes		200,000				200,000
16% senior notes, net of unamortized discount	35,472					35,472
Other long-term debt			330	41,945		42,275
Intercompany loan payable			726,844	60,165	(787,009)	
Total long-term debt	35,472	713,673	727,174	102,110	(787,009)	791,420
Deferred compensation liability		138,037				138,037
Other liabilities			48,356	62,666		111,022
Total liabilities	89,848	869,324	1,307,746	434,654	(827,676)	1,873,896
Minority interest				6,656		6,656
Commitments and contingencies						
Stockholders equity	332,929	321,451	252,399	199,393	(773,243)	332,929
Total liabilities and stockholders equity	$ 422,777	$ 1,190,775	$ 1,560,145	$ 640,703	$ (1,600,919)	$ 2,213,481

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2002

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	$ 127	$ 54	$ 74,173	$ 5,347	$	$ 79,701
Receivables, less allowance for doubtful accounts		40	61,624	104,549		166,213
Warehouse receivable			63,140			63,140
Prepaid expenses and other current assets	18,723	22,201	8,432	7,729	(20,199)	36,886
Total current assets	18,850	22,295	207,369	117,625	(20,199)	345,940
Property and equipment, net			51,419	15,215		66,634
Goodwill			442,965	134,172		577,137
Other intangible assets, net			89,075	2,007		91,082
Deferred compensation assets		63,642				63,642
Investment in and advances to unconsolidated subsidiaries		4,782	39,205	6,221		50,208
Investment in consolidated subsidiaries	302,593	322,794	66,162		(691,549)	
Intercompany loan receivable		429,396			(429,396)	
Deferred tax assets, net	36,376					36,376
Other assets, net	4,896	17,464	20,453	51,044		93,857
Total assets	$ 362,715	$ 860,373	$ 916,648	$ 326,284	$ (1,141,144)	$ 1,324,876
Current Liabilities:						
Accounts payable and accrued expenses	$ 2,137	$ 4,610	$ 36,895	$ 58,773	$	$ 102,415
Intercompany payable	20,199				(20,199)	
Compensation and employee benefits payable			40,938	22,796		63,734
Accrued bonus and profit sharing			59,942	43,916		103,858
Income taxes payable	15,451					15,451
Short-term borrowings:						
Warehouse line of credit			63,140			63,140
Other			12,145	47,909		60,054
Total short-term borrowings			75,285	47,909		123,194
Current maturities of long-term debt		9,975		736		10,711
Other current liabilities	11,724					11,724

Total current liabilities	49,511	14,585	213,060	174,130	(20,199)	431,087
Long-Term Debt:						
11 1/4% senior subordinated notes, net of unamortized discount		225,943				225,943
Senior secured term loans		211,000				211,000
16% senior notes, net of unamortized discount	61,863					61,863
Other long-term debt				198		198
Intercompany loan payable			362,344	67,052	(429,396)	
Total long-term debt	61,863	436,943	362,344	67,250	(429,396)	499,004
Deferred compensation liability		106,252				106,252
Other liabilities			18,450	13,127		31,577
Total liabilities	111,374	557,780	593,854	254,507	(449,595)	1,067,920
Minority interest				5,615		5,615
Commitments and contingencies						
Stockholders equity	251,341	302,593	322,794	66,162	(691,549)	251,341
Total liabilities and stockholders equity	$ 362,715	$ 860,373	$ 916,648	$ 326,284	$ (1,141,144)	$ 1,324,876

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$	$ 1,137,987	$ 492,087	$	$ 1,630,074
Costs and expenses:						
Cost of services			577,808	218,600		796,408
Operating, administrative and other	426	4,973	447,447	225,551		678,397
Depreciation and amortization			56,853	35,769		92,622
Merger-related and other nonrecurring charges			20,367	16,450		36,817
Operating (loss) income	(426)	(4,973)	35,512	(4,283)		25,830
Equity income from unconsolidated subsidiaries		132	13,818	415		14,365
Interest income	185	39,312	2,659	2,738	(38,853)	6,041
Interest expense	17,815	61,907	38,046	8,301	(38,853)	87,216
Equity losses from consolidated subsidiaries	(21,214)	(8,432)	(16,739)		46,385	
Loss before (benefit) provision for income taxes	(39,270)	(35,868)	(2,796)	(9,431)	46,385	(40,980)
(Benefit) provision for income taxes	(4,566)	(14,654)	5,636	7,308		(6,276)
Net loss	$ (34,704)	$ (21,214)	$ (8,432)	$ (16,739)	$ 46,385	$ (34,704)

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$	$ 849,563	$ 320,714	$	$ 1,170,277
Costs and expenses:						
Cost of services			413,830	133,263		547,093
Operating, administrative and other	415	1,186	345,279	154,918		501,798
Depreciation and amortization			15,833	8,781		24,614
Merger-related and other nonrecurring charges		36				36
Operating (loss) income	(415)	(1,222)	74,621	23,752		96,736
Equity income from unconsolidated subsidiaries		662	7,449	1,215		9,326
Interest income	158	42,845	2,079	916	(42,726)	3,272
Interest expense	11,344	42,731	39,742	9,410	(42,726)	60,501
Equity income from consolidated subsidiaries	27,306	32,898	5,005		(65,209)	
Income before (benefit) provision for income taxes	15,705	32,452	49,412	16,473	(65,209)	48,833
(Benefit) provision for income taxes	(3,022)	5,146	16,514	11,468		30,106
Net income	$ 18,727	$ 27,306	$ 32,898	$ 5,005	$ (65,209)	$ 18,727

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE PERIOD FROM FEBRUARY 20 (INCEPTION) TO DECEMBER 31, 2001

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$	$ 416,446	$ 146,382	$	$ 562,828
Costs and expenses:						
Cost of services			207,019	56,582		263,601
Operating, administrative and other	500	3,589	145,145	70,175		219,409
Depreciation and amortization			8,523	3,675		12,198
Merger-related and other nonrecurring charges		2,144	3,530	768		6,442
Operating (loss) income	(500)	(5,733)	52,229	15,182		61,178
Equity income from unconsolidated subsidiaries		198	1,290	66		1,554
Interest income	1,135	19,270	370	561	(18,909)	2,427
Interest expense	8,199	20,353	17,091	2,983	(18,909)	29,717
Equity income from consolidated subsidiaries	22,721	27,713	8,605		(59,039)	
Income before (benefit) provision for income taxes	15,157	21,095	45,403	12,826	(59,039)	35,442
(Benefit) provision for income taxes	(2,269)	(1,626)	17,690	4,221		18,016
Net income	$ 17,426	$ 22,721	$ 27,713	$ 8,605	$ (59,039)	$ 17,426

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE PERIOD FROM JANUARY 1 TO JULY 20, 2001

(Predecessor Company)

(Dollars in thousands)

	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Revenue	$	$ 465,280	$ 142,654	$	$ 607,934
Costs and expenses:					
Cost of services		217,799	61,404		279,203
Operating, administrative and other	1,155	216,063	80,778		297,996
Depreciation and amortization		17,021	8,635		25,656
Merger-related and other nonrecurring charges	19,260	2,867			22,127
Operating (loss) income	(20,415)	11,530	(8,163)		(17,048)
Equity income from unconsolidated subsidiaries	492	2,141	241		2,874
Interest income	16,757	952	615	(16,757)	1,567
Interest expense	18,014	14,952	4,094	(16,757)	20,303
Equity losses from consolidated subsidiaries	(14,587)	(12,480)		27,067	
Loss before (benefit) provision for income taxes	(35,767)	(12,809)	(11,401)	27,067	(32,910)
(Benefit) provision for income taxes	(1,747)	1,778	1,079		1,110
Net loss	$ (34,020)	$ (14,587)	$ (12,480)	$ 27,067	$ (34,020)

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (30,872)	$ 5,041	$ 59,797	$ 29,975	$ 63,941
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures, net of concessions received			(14,182)	(12,779)	(26,961)
Proceeds from sale of properties and servicing rights			3,753	196	3,949
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired			(276,401)	12,718	(263,683)
Other investing activities, net		26	6,415	(4,541)	1,900
Net cash provided by (used in) investing activities		26	(280,415)	(4,406)	(284,795)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolver and swingline credit facility		152,580			152,580
Repayment of revolver and swingline credit facility		(152,580)			(152,580)
Proceeds from senior secured term loans		375,000			375,000
Repayment of senior secured term loans		(298,475)			(298,475)
Proceeds from 9 3/4% senior notes		200,000			200,000
Repayment of notes payable		(43,000)			(43,000)
Repayment of 16% senior notes	(30,000)				(30,000)
(Repayment of) proceeds from senior notes and other loans, net			(914)	3,943	3,029
Proceeds from issuance of common stock	120,980				120,980
(Increase) decrease in intercompany receivables, net	(56,894)	(215,929)	296,111	(23,288)	
Other financing activities, net	(333)	(22,700)		(837)	(23,870)

Net cash provided by (used in) financing activities	33,753	(5,104)	295,197	(20,182)	303,664
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,881	(37)	74,579	5,387	82,810
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	127	54	74,173	5,347	79,701
Effect of currency exchange rate changes on cash				1,370	1,370
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 3,008	$ 17	$ 148,752	$ 12,104	$ 163,881
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	$ 15,823	$ 44,201	$ 1,491	$ 2,203	$ 63,718
Income taxes, net of refunds	17,783				17,783

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:	$ 509	$ (7,905)	$ 42,090	$ 30,188	$ 64,882
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures, net of concessions received			(10,049)	(4,217)	(14,266)
Proceeds from sale of properties and servicing rights			2,515	3,863	6,378
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(11,588)	(35)	(3,188)	(14,811)
Other investing activities, net		44	196	(1,671)	(1,431)
Net cash used in investing activities		(11,544)	(7,373)	(5,213)	(24,130)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolver and swingline credit facility		238,000			238,000
Repayment of revolver and swingline credit facility		(238,000)			(238,000)
Repayment of senior secured term loans		(9,351)			(9,351)
Repayment of senior notes and other loans, net		(189)	(3,116)	(4,900)	(8,205)
Decrease (increase) in intercompany receivables, net		28,284	462	(28,746)	
Other financing activities, net	(385)	(172)	(94)	369	(282)
Net cash (used in) provided by financing activities	(385)	18,572	(2,748)	(33,277)	(17,838)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	124	(877)	31,969	(8,302)	22,914
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	3	931	42,204	14,312	57,450
Effect of currency exchange rate changes on cash				(663)	(663)

CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 127	$ 54	$ 74,173	$ 5,347	$ 79,701
SUPPLEMENTAL DATA:					
Cash paid during the period for:					
Interest, net of amount capitalized	$ 8,509	$ 38,751	$ 1,635	$ 3,752	$ 52,647
Income taxes, net of refunds	19,142				19,142

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM FEBRUARY 20 (INCEPTION) TO DECEMBER 31, 2001

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 310	$ 5,947	$ 56,478	$ 28,599	$	$ 91,334
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital expenditures, net of concessions received			(4,246)	(2,255)		(6,501)
Proceeds from sale of properties and servicing rights			1,996	112		2,108
Investment in property held for sale				(40,174)		(40,174)
Contribution to CBRE	(154,881)				154,881	
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(212,369)	(1,850)	(483)		(214,702)
Other investing activities, net		(1)	(1,950)	(173)		(2,124)
Net cash used in investing activities	(154,881)	(212,370)	(6,050)	(42,973)	154,881	(261,393)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from revolver and swingline credit facility		113,750				113,750
Repayment of revolver and swingline credit facility		(113,750)				(113,750)
Proceeds from senior secured term loans		235,000				235,000
Repayment of senior secured term loans		(4,675)				(4,675)
Proceeds from 16% senior notes	65,000					65,000
Repayment of senior notes and other loans, net			(1,185)	(3)		(1,188)
Proceeds from 11 1/4% senior subordinated notes		225,629				225,629
Repayment of 8 7/8% senior subordinated notes		(175,000)				(175,000)
Proceeds from non recourse debt related to property held for sale				37,179		37,179
Repayment of revolving credit facility		(235,000)				(235,000)
Payment of deferred financing fees	(2,582)	(19,168)				(21,750)
Proceeds from issuance of stock	92,156	154,881			(154,881)	92,156

Decrease (increase) in intercompany receivables, net		30,263	(6,981)	(23,282)		
Other financing activities, net		(5,535)	(103)	2,118		(3,520)
Net cash provided by (used in) financing activities	154,574	206,395	(8,269)	16,012	(154,881)	213,831
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3	(28)	42,159	1,638		43,772
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD		959	45	12,658		13,662
Effect of currency exchange rate changes on cash				16		16
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 3	$ 931	$ 42,204	$ 14,312	$	$ 57,450
SUPPLEMENTAL DATA:						
Cash paid during the period for:						
Interest, net of amount capitalized	$ 2,600	$ 22,562	$ 874	$ 90	$	$ 26,126
Income taxes, net of refunds	5,061					5,061

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CB RICHARD ELLIS GROUP, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JANUARY 1 TO JULY 20, 2001

(Predecessor Company)

(Dollars in thousands)

	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
CASH FLOWS USED IN OPERATING ACTIVITIES	$ (37,633)	$ (53,363)	$ (29,234)	$ (120,230)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures, net of concessions received		(11,309)	(3,505)	(14,814)
Proceeds from sale of properties and servicing rights		9,105	439	9,544
Investment in property held for sale			(2,282)	(2,282)
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired		(31)	(1,893)	(1,924)
Other investing activities, net	251	(3,024)	110	(2,663)
Net cash provided by (used in) investing activities	251	(5,259)	(7,131)	(12,139)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from revolving credit facility	195,000			195,000
Repayment of revolving credit facility	(70,000)			(70,000)
(Repayment of) proceeds from senior notes and other loans, net	(2,490)	(1,656)	4,592	446
Payment of deferred financing fees	(8)			(8)
(Increase) decrease in intercompany receivables, net	(85,712)	52,846	32,866	
Other financing activities, net	1,489	(81)	(616)	792
Net cash provided by financing activities	38,279	51,109	36,842	126,230
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	897	(7,513)	477	(6,139)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	62	7,558	13,234	20,854
Effect of currency exchange rate changes on cash			(1,053)	(1,053)
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 959	$ 45	$ 12,658	$ 13,662

SUPPLEMENTAL DATA:				
Cash paid during the period for:				
Interest, net of amount capitalized	$ 17,194	$ 1,165	$ 98	$ 18,457
Income taxes, net of refunds	19,083			19,083

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Industry Segments

We report our operations through three geographically organized segments: (1) Americas, (2) Europe, Middle East and Africa (EMEA) and (3) Asia Pacific. Summarized financial information by operating segment is as follows (dollars in thousands):

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20 (inception) to December 31,	Period From January 1 to July 20,
	2003	2002	2001	2001
Revenue				
Americas	$ 1,197,626	$ 896,064	$ 440,349	$ 488,450
EMEA	313,686	182,222	83,012	78,294
Asia Pacific	118,762	91,991	39,467	41,190
	$ 1,630,074	$ 1,170,277	$ 562,828	$ 607,934
Operating income (loss)				
Americas	$ 35,107	$ 72,868	$ 47,767	$ (10,801)
EMEA	(20,490)	17,287	11,441	(2,149)
Asia Pacific	11,213	6,581	1,970	(4,098)
	25,830	96,736	61,178	(17,048)
Equity income (loss) from unconsolidated subsidiaries				
Americas	$ 14,180	$ 8,425	$ 1,343	$ 2,465
EMEA	(188)	82	22	(20)
Asia Pacific	373	819	189	429
	$ 14,365	$ 9,326	$ 1,554	$ 2,874
Interest income	6,041	3,272	2,427	1,567
Interest expense	87,216	60,501	29,717	20,303
(Loss) income before (benefit) provision for income taxes	$ (40,980)	$ 48,833	$ 35,442	$ (32,910)

Depreciation and amortization				
Americas	$ 58,216	$ 16,958	$ 9,221	$ 18,231
EMEA	31,287	4,579	1,763	4,729
Asia Pacific	3,119	3,077	1,214	2,696
	$ 92,622	$ 24,614	$ 12,198	$ 25,656
Capital expenditures, net of concessions received				
Americas	$ 14,960	$ 10,999	$ 4,692	$ 12,237
EMEA	10,353	2,018	694	1,557
Asia Pacific	1,648	1,249	1,115	1,020
	$ 26,961	$ 14,266	$ 6,501	$ 14,814

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Identifiable assets			
Americas	$ 1,426,525	$ 868,990	$ 941,732
EMEA	409,087	198,027	171,621
Asia Pacific	124,128	123,059	97,552
Corporate	253,741	134,800	143,607
	$ 2,213,481	$ 1,324,876	$ 1,354,512

Identifiable assets by industry segment are those assets used in our operations in each segment. Corporate identifiable assets include cash and cash equivalents and net deferred tax assets.

	December 31,	
	2003	2002
	(Dollars in thousands)	
Investments in and advances to unconsolidated subsidiaries		
Americas	$ 56,774	$ 44,294
EMEA	6,494	1,058
Asia Pacific	5,093	4,856
	$ 68,361	$ 50,208

Geographic Information:

	CB Richard Ellis Group			Predecessor Company
	Year Ended December 31,		Period From February 20	Period From January 1
	2003	2002	(inception) to	to July 20,

			December 31, 2001	2001
			(Dollars in thousands)	
Revenue				
U.S.	$ 1,137,986	$ 849,563	$ 416,445	$ 465,281
U.K.	179,792	95,947	48,206	48,210
All other countries	312,296	224,767	98,177	94,443
	$ 1,630,074	$ 1,170,277	$ 562,828	$ 607,934

The revenue shown in the table above is allocated based upon the country in which services are performed.

	December 31,	
	2003	2002
	(Dollars in thousands)	
Long-lived assets		
U.S.	$ 66,280	$ 51,419
U.K.	31,707	3,297
All other countries	15,582	11,918
	$ 113,569	$ 66,634

The long-lived assets shown in the table above include property and equipment.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Related Party Transactions

Included in other current and other assets in the accompanying consolidated balance sheets are employee loans of $31.7 million and $5.9 million as of December 31, 2003 and 2002, respectively. The majority of these loans represent sign-on and retention bonuses issued or assumed in connection with the Insignia Acquisition as well as prepaid retention and recruitment awards issued to employees. These loans are at varying principal amounts, bear interest at rates up to 10% per annum and mature on various dates through 2008. As of December 31, 2002, the outstanding employee loan balances included a $0.3 million loan to Ray Wirta, our Chief Executive Officer, and a $0.2 million loan to Brett White, our President. These non-interest bearing loans to Mr. Wirta and Mr. White were issued during 2002 and were due and payable on December 31, 2003. The compensation committee of our board of directors forgave Mr. Wirta s and Mr. White s loans in full, effective January 1, 2004.

The accompanying consolidated balance sheets also include $4.7 million and $4.8 million of notes receivable from sale of stock as of December 31, 2003 and 2002, respectively. These notes are primarily comprised of full recourse loans to our employees, officers and certain shareholders, and are secured by our common stock that is owned by the borrowers. These recourse loans are at varying principal amounts, require quarterly interest payments, bear interest at rates up to 10.0% per annum and mature on various dates through 2010.

Pursuant to the Equity Incentive Plan (EIP), Mr. Wirta purchased 30,000 shares of CBRE common stock in 2000 at a purchase price of $12.875 per share that was paid for by the delivery of a full recourse promissory note bearing interest at 7.40%. As part of the 2001 Merger, the 30,000 shares of CBRE common stock were exchanged for 83,141 shares of our Class B common stock, which shares were substituted for the CBRE shares as security for the note. All interest charged on the outstanding promissory note balance for any year is forgiven if Mr. Wirta s performance produces a high enough level of bonus, with approximately $7,500 of interest forgiven for each $10,000 of bonus. In 2003, our board of directors forgave all 2002 interest on Mr. Wirta s promissory note. As of December 31, 2003 and 2002, Mr. Wirta had an outstanding loan balance of $385,950, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheets.

Pursuant to the EIP, Mr. White purchased 25,000 shares of CBRE common stock in 1998 at a purchase price of $38.50 per share and 20,000 shares of CBRE common stock in 2000 at a purchase price of $12.875 per share. These purchases were paid for by the delivery of full recourse promissory notes. A First Amendment to Mr. White s 1998 promissory note provided that the portion of the then outstanding principal in excess of the fair market value of the shares would be forgiven in the event that Mr. White was an employee of ours or of our subsidiaries on November 16, 2002 and the fair market value of our common stock was at least $38.50 per share on November 16, 2002. Mr. White s promissory note was subsequently amended, terminating the First Amendment and adjusting the original 1998 Stock Purchase Agreement by reducing the purchase price from $13.89 to $5.77. During 2002, the 69,284 shares held as security for the Second Amended Promissory Note were tendered as full payment for this note. The remaining note delivered by Mr. White bears interest at 7.40%. As part of the 2001 Merger, the 20,000 shares of CBRE common stock purchased by Mr. White were exchanged for 55,427 shares of our common Class B common stock, which shares were substituted for CBRE shares as security for the note. All interest charged on the outstanding promissory note balances for any year is forgiven if Mr. White s performance produces a high enough level of bonus, with approximately $7,500 of interest forgiven for each $10,000 of bonus. In 2003, our board of directors forgave all 2002 interest on Mr. White s promissory note. As of December 31, 2003 and 2002, Mr. White had an outstanding loan balance $257,300, which is included in notes receivable from the sale of stock in the accompanying consolidated balance sheets.

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CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2003 and 2002, Mr. White also had an outstanding loan balance of $179,886 and $164,832, respectively, which is included in notes receivable from the sale of stock in the accompanying consolidated balance sheets. This outstanding loan relates to the acquisition of 12,500 shares of CBRE s common stock prior to the 2001 Merger. Subsequent to the 2001 Merger, these shares were converted into 34,642 shares of our common stock and the related loan amount was carried forward. As amended, this loan accrues interest at 6.0%, and the principal and all accrued interest is payable on or before April 23, 2010. Mr. White repaid this loan in full on February 10, 2004.

At the time of the 2001 Merger, Mr. Wirta delivered to us an $80,000 promissory note, which bore interest at 10% per year, as payment for the purchase of 13,857 shares of our Class B common stock. Mr. Wirta repaid this promissory note in full in April of 2002. Additionally, Mr. Wirta and Mr. White delivered full-recourse notes in the amounts of $512,504 and $209,734, respectively, as payment for a portion of the shares of Class A common stock purchased in connection with the 2001 Merger. These notes bear interest at 10% per year. During the year ended December 31, 2002, Mr. Wirta paid down his loan amount by $40,004 and Mr. White paid off his note in its entirety. During the year ended December 31, 2003, Mr. Wirta paid down his loan amount by $70,597. As of December 31, 2003 and 2002, Mr. Wirta has an outstanding loan balance of $401,903 and $472,500, respectively, which is included in notes receivable from sale of stock in the accompanying consolidated balance sheets.

In the event that our common stock is not freely tradable on a national securities exchange or an over-the-counter market by May 30, 2004, we agreed in 2001 to loan Mr. Wirta up to $3.0 million on a full-recourse basis to enable him to exercise an existing option to acquire shares held by the Koll Holding Company if Mr. Wirta is employed by us at the time of exercise, was terminated without cause or resigned for good reason. This loan will become repayable upon the earliest to occur of the following: (1) 90 days following termination of his employment, other than without cause or by him for good reason, (2) seven months following the date our common stock becomes freely tradable as described above or (3) the receipt of proceeds from the sale of the pledged shares. This loan will bear interest at the prime rate in effect on the date of the loan, compounded annually, and will be repayable to the extent of any net proceeds received by Mr. Wirta upon sale of any shares of our common stock. Mr. Wirta is required to pledge the shares received upon exercise of the option as security for the loan.

23. Subsequent Event

On April 23, 2004, we entered into an amendment to the current amended and restated credit agreement that includes a waiver generally permitting us to prepay, redeem, repurchase or otherwise retire up to $30.0 million of our existing indebtedness. In May 2004, we purchased $20.1 in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of $2.9 of premiums in connection with these purchases.

On May 4, 2004, we amended our Certificate of Incorporation increasing the authorized Class A common shares to 325,000,000 and the authorized Class B common shares to 100,000,000. Additionally, on May 4, 2004, we effected a three-for-one split of our outstanding Class A common stock and Class B common stock, which split was effected by a stock dividend. In addition, on June , 2004, we effected a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock. The applicable share and per share data for all periods included herein have been restated to give effect to these stock splits.

On May 12, 2004, our wholly owned subsidiary, L.J. Melody & Company, modified its credit agreement with RFC to provide a temporary revolving line of credit increase of $100.0 million that resulted in a total line of credit under the agreement equaling $350.0 million. This increase will be effective on May 30, 2004 and expires 90 days after the effective date.

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CB RICHARD ELLIS GROUP, INC.

QUARTERLY RESULTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31, 2003	Three Months Ended September 30, 2003	Three Months Ended June 30, 2003	Three Months Ended March 31, 2003
	(Dollars in thousands, except share data)			
Revenue	$ 621,257	$ 423,376	$ 321,717	$ 263,724
Operating income (loss)	19,136	(22,676)	21,591	7,779
Net (loss) income	(10,084)	(28,445)	5,172	(1,347)
Basic EPS (1)	(0.16)	(0.49)	0.12	(0.03)
Weighted average shares outstanding for basic EPS (1)	62,532,166	57,486,405	41,683,699	41,651,415
Diluted EPS (1)	$ (0.16)	$ (0.49)	$ 0.12	$ (0.03)
Weighted average shares outstanding for diluted EPS (1)	62,532,166	57,486,405	42,523,893	41,651,415

(1) EPS is defined as earnings (loss) per share

	Three Months Ended December 31, 2002	Three Months Ended September 30, 2002	Three Months Ended June 30, 2002	Three Months Ended March 31, 2002
	(Dollars in thousands, except share data)			
Revenue	$ 376,466	$ 284,928	$ 284,893	$ 223,990
Operating income	49,264	18,384	27,624	1,464
Net income (loss)	15,097	1,881	7,289	(5,540)
Basic EPS (1)	0.36	0.05	0.17	(0.13)
Weighted average shares outstanding for basic EPS (1)	41,572,035	41,614,903	41,666,372	41,710,761
Diluted EPS (1)	$ 0.36	$ 0.05	$ 0.17	$ (0.13)
Weighted average shares outstanding for diluted EPS (1)	42,230,128	42,196,179	42,172,340	41,710,761

(1) EPS is defined as earnings (loss) per share

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CB RICHARD ELLIS GROUP, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	CB Richard Ellis Group
	Allowance For Bad Debts
Balance, February 20, 2001 (inception)	$
Acquired in connection with the 2001 Merger	12,074
Charges to expense	1,317
Write-offs, payments and other	(1,643)
Balance, December 31, 2001	11,748
Charges to expense	3,415
Write-offs, payments and other	(4,271)
Balance, December 31, 2002	10,892
Acquired in connection with the Insignia Acquisition	5,061
Charges to expense	3,436
Write-offs, payments and other	(3,208)
Balance, December 31, 2003	$ 16,181

	Predecessor Company
	Allowance For Bad Debts
Balance, December 31, 2000	$ 12,631
Charges to expense	3,387
Write-offs, payments and other	(3,944)
Balance, July 20, 2001	$ 12,074

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INSIGNIA FINANCIAL GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share data)

(Unaudited)

	June 30, 2003
Assets	
Cash and cash equivalents	$ 55,991
Receivables, net	137,566
Restricted cash	21,153
Property and equipment, net	42,140
Real estate investments, net	131,411
Goodwill	260,565
Acquired intangible assets, less accumulated amortization of $56,025	4,684
Deferred taxes	62,086
Other assets, net	18,653
Total assets	$ 734,249
Liabilities and Stockholders Equity	
Liabilities:	
Accounts payable	$ 8,999
Commissions payable	45,744
Accrued incentives	13,958
Accrued and sundry	92,886
Deferred taxes	23,396
Notes payable	56,785
Real estate mortgage notes	71,986
Total liabilities	313,754
Stockholders Equity:	
Common stock, par value $.01 per share authorized 80,000,000 shares, 24,082,121 issued and outstanding shares, net of 1,502,600 shares held in treasury	241
Preferred stock, par value $.01 per share authorized 20,000,000 shares, Series A, 250,000 and Series B, 125,000 issued and outstanding shares	4
Additional paid-in capital	443,101
Notes receivable for common stock	(1,006)
Accumulated deficit	(24,104)
Accumulated other comprehensive income	2,259
Total stockholders equity	420,495
Total liabilities and stockholders equity	$ 734,249

See Notes to Condensed Consolidated Financial Statements.

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INSIGNIA FINANCIAL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2003	**2002**
Revenues		
Real estate services	$ 281,280	$ 255,446
Property operations	4,326	4,550
Equity (loss) earnings in unconsolidated ventures	(3,318)	3,259
	282,288	263,255
Costs and expenses		
Real estate services	271,908	239,960
Property operations	3,664	3,165
Administrative	10,192	6,583
Depreciation	6,971	6,744
Property depreciation	753	1,058
Amortization of intangibles	1,222	2,735
	294,710	260,245
Operating (loss) income	(12,422)	3,010
Other income and expenses:		
Interest income	1,646	2,081
Other income	29	13
Interest expense	(3,293)	(4,338)
Property interest expense	(841)	(951)
Loss from continuing operations before income taxes	(14,881)	(185)
Income tax benefit	5,208	83
Loss from continuing operations	(9,673)	(102)
Discontinued operations, net of applicable taxes:		
(Loss) income from operations	(360)	2,869
Income on disposal	3,763	265
(Loss) income before cumulative effect of a change in accounting principle	(6,270)	3,032
Cumulative effect of a change in accounting principle, net of applicable taxes		(20,635)
Net loss	(6,270)	(17,603)

Preferred stock dividends	(1,594)	(573)
Net loss available to common shareholders	$ (7,864)	$ (18,176)

See Notes to Condensed Consolidated Financial Statements.

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INSIGNIA FINANCIAL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2003	**2002**
Operating activities		
Loss from continuing operations	$ (9,673)	$ (102)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	8,946	10,537
Equity loss (earnings) in unconsolidated ventures	3,318	(3,259)
Changes in operating assets and liabilities:		
Accounts receivable	16,441	36,386
Other assets	(7,752)	3,158
Accrued incentives	(35,339)	(44,039)
Accounts payable and accrued expenses	(9,136)	(23,526)
Commissions payable	(17,543)	(33,747)
Net cash used in operating activities	(50,738)	(54,592)
Investing activities		
Additions to property and equipment, net	(4,982)	(2,197)
Proceeds from real estate investments	4,154	30,940
Payments made for acquisitions of businesses	(4,071)	(6,155)
Proceeds from sale of discontinued operations	66,750	23,250
Investment in real estate	(4,732)	(4,897)
Decrease in restricted cash	365	2,941
Net cash provided by investing activities	57,484	43,882
Financing activities		
Proceeds from issuance of common stock	5,488	1,127
Proceeds from issuance of preferred stock, net		12,325
Preferred stock dividends	(1,593)	(633)
Payment on notes payable	(70,104)	(36,722)
Payments on real estate mortgage notes		(20,915)
Proceeds from real estate mortgage notes	5,191	
Debt issuance costs		(866)
Net cash used in financing activities	(61,018)	(45,684)
Net cash (used in) provided by discontinued operations	(3,002)	5,209
Effect of exchange rate changes on cash	1,818	1,641

Net decrease in cash and cash equivalents	(55,456)	(49,544)
Cash and cash equivalents at beginning of period	111,447	131,770
Cash and cash equivalents at end of period	$ 55,991	$ 82,226

See Notes to Condensed Consolidated Financial Statements.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Insignia Financial Group, Inc. (Insignia or the Company), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, United Kingdom, France, continental Europe, Asia and Latin America. Insignia s real estate service businesses offer a diversified array of services including commercial leasing, sales brokerage, corporate real estate consulting, property management, property development, re-development and real estate oriented financial services. In addition to traditional real estate services, Insignia has historically deployed its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds. The Company s real estate service operations and real estate investments are more fully described below.

Insignia s primary real estate service businesses include the following: Insignia/ESG (United States, commercial real estate services), Insignia Richard Ellis (United Kingdom, commercial real estate services) and Insignia Bourdais (France, commercial real estate services; acquired in December 2001). Insignia also offers commercial real estate services throughout continental Europe, Asia and Latin America. Insignia s other businesses in continental Europe include operations in Germany, Italy, Spain, Holland and Belgium. Insignia s New York-based residential businesses Insignia Douglas Elliman and Insignia Residential Group were sold on March 14, 2003 (see further discussion under the caption Discontinued Operations in Note 6).

2. Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

3. Reclassifications

Certain amounts for the prior year have been reclassified to conform to the 2003 presentation. These reclassifications have no effect on reported net loss.

4. Seasonality

The Company s revenues are substantially derived from tenant representation, agency leasing, investment sales and consulting services. Revenues generated by these services are transactional in nature and therefore affected by seasonality, availability of space, competition in the market place and changes in business and capital market conditions. A significant portion of the expenses associated with these transactional activities are directly correlated to revenue. Also, certain conditions to revenue recognition for leasing commissions are outside of the Company s control.

Consistent with the industry in general, the Company s revenues and operating income have historically been lower during the first three calendar quarters than in the fourth quarter. The reasons for the concentration of earnings in the fourth quarter include a general, industry-wide focus on completing transactions by calendar year

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

end, as well as the constant nature of the Company s non-variable expenses throughout the year versus the seasonality of its revenues. This phenomenon has generally produced a historical pattern of higher revenues and income in the last half of the year and a gradual slowdown in transactional activity and corresponding operating results during the first quarter. This tendency notwithstanding, it is possible that any fourth quarter may not be the best performing quarter of a particular year. Insignia s quarterly earnings are also susceptible to the potential adverse effects of unforeseen market disruptions like that of the third quarter of 2001 caused by the events of September 11. Consequently, future revenue production and earnings may be difficult to predict and comparisons from period to period may be difficult to interpret.

5. Foreign Currency

The financial statements of the Company s foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generated approximately 30% of the Company s service revenues for the six months ended June 30, 2003. Revenues and expenses of all foreign subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of stockholders equity in accumulated other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income.

For the six months ended June 30, 2003, European operations were translated to U.S. dollars at average exchange rates of $1.61 to the British pound and $1.10 to the euro. The assets and liabilities of the Company s European operations have been translated at exchange rates of $1.65 to the British pound and $1.14 to the euro at June 30, 2003.

6. Discontinued Operations

On March 14, 2003, Insignia completed the sale of its New York-based residential businesses, Insignia Residential Group and Insignia Douglas Elliman, to Montauk Battery Realty. Montauk Battery Realty is located on Long Island, New York and its principal owners are New Valley Corp. and Dorothy Herman, chief executive officer of Prudential Long Island Realty. The total purchase price of $71.75 million was paid or is payable as follows: (i) $66.75 million paid in cash to Insignia at the closing of the transaction; (ii) $500,000 in cash held in escrow on the closing date and up to another $500,000 held in escrow pending receipt of specified commissions; and (iii) the assumption by the buyer of up to $4.0 million in existing contingent earn-out payment obligations of Insignia Douglas Elliman. The escrowed amounts are available to secure Insignia s indemnity obligations under the purchase and sale agreement. Any amounts remaining in escrow on March 14, 2004 and not securing previously made indemnity claims will be released to Insignia.

Insignia Douglas Elliman, acquired by Insignia in June 1999, provides sales and rental services in the New York City residential cooperative, condominium and rental apartment market and also operates in upscale suburban markets in Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Insignia Residential Group is the largest manager of cooperative, condominium and rental apartments in the New

York metropolitan area, providing full service third-party fee management for more than 250 properties, comprising approximately 60,000 residential units. These residential businesses collectively produced service revenues in 2002 and 2001 of $133.7 million and $119.2 million, respectively.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During the six months ended June 30, 2003, Insignia recognized a net gain of approximately $3.8 million (net of $4.7 million of applicable income taxes) in connection with the sale of its residential businesses. These businesses also generated an operating loss of $360,000 on revenues of $20.5 million during the 2003 period. The gain on sale and operating loss are reported as discontinued operations for financial reporting purposes. During the first quarter of 2002, Insignia recognized income on disposal of $265,000 (net of applicable taxes of $1.8 million) related to the sale of Realty One, the Company s former single-family home brokerage business.

The following tables summarize the aggregate assets and liabilities of Insignia Douglas Elliman and Insignia Residential Group at December 31, 2002 and the results of operations and income on disposal attributed to Insignia Douglas Elliman (2003), Insignia Residential Group (2003) and Realty One (2002) during the six months ended June 30, 2003 and 2002, respectively.

	December 31, 2002
	(In thousands)
Assets	
Cash and cash equivalents	$ 66
Receivables	2,479
Property and equipment	11,766
Goodwill	34,117
Acquired intangible assets	11,999
Deferred taxes	3,365
Other assets	2,177
Assets of discontinued operations	65,969
Liabilities	
Accounts payable	2,535
Commissions payable	564
Accrued incentives	3,027
Accrued and sundry liabilities	3,256
Deferred taxes	789
Liabilities of discontinued operations	10,171
Net assets	$ 55,798

	Six Months Ended June 30,	
	2003	2002

	(In thousands)	
Revenues	$ 20,517	$ 69,009
(Loss) income from operations, net of tax benefit of $248 (2003) and tax expense of $2,347 (2002)	(360)	2,869
Income on disposal, net of tax expense of $4,741 (2003) and $1,809 (2002)	3,763	265
Net income	$ 3,403	$ 3,134

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Goodwill and Intangible Assets

The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2002 to June 30, 2003.

	Commercial	Residential	Total
		(In thousands)	
Balance as of December 31, 2002	$ 255,444	$ 34,117	$ 289,561
Adjustment for discontinued operations		(34,117)	(34,117)
	255,444		255,444
Other adjustments to purchase consideration	(877)		(877)
Foreign currency translation	5,998		5,998
Balance as of June 30, 2003	$ 260,565	$	$ 260,565

The following tables present certain information on the Company s acquired intangible assets as of June 30, 2003.

Acquired Intangible Assets	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
			(In thousands)	
As of June 30, 2003				
Property management contracts	5 years	$ 52,679	$ 51,895	$ 784
Favorable premises leases	11 years	2,666	257	2,409
Other	3 years	5,364	3,873	1,491
Total		$ 60,709	$ 56,025	$ 4,684

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in Other consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate acquired intangible amortization expense for the six months ended June 30, 2003 and 2002 totaled $1.2 million and $2.7 million, respectively. The decline in amortization expense in 2003 is attributed to property management contracts and customer backlog that were fully amortized in 2002.

8. Real Estate Investments

Insignia has historically invested in real estate assets and real estate debt securities. Insignia has engaged in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its own behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt.

At June 30, 2003, the Company s real estate investments totaled $131.4 million, consisting of the following: (i) $19.3 million in minority-owned operating properties; (ii) $87.2 million of real estate carrying value attributed to three real estate investment entities consolidated by Insignia for financial reporting purposes; (iii) $8.1 million in four minority owned office development properties; (iv) $1.7 million in a land parcel held for development;

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and (v) $15.1 million in minority-owned private investment funds owning debt securities. The properties owned by the consolidated investment entities are subject to mortgage debt of $72.0 million and Insignia s investment in the properties totaled $22.3 million at June 30, 2003. Insignia s investment in consolidated properties includes $19.2 million invested in a marina-based development property in the U.S. Virgin Islands. Insignia s minority-owned investments in operating real estate assets include office, retail, industrial, apartment and hotel properties. At June 30, 2003, these real estate assets consisted of over 5.8 million square feet of commercial property and 1,967 multi-family apartment units and hotel rooms. The Company s minority ownership interests in co-investment property range from 1% to 33%.

Gains realized from sales of real estate by minority owned entities for the six months ended June 30, 2003 and 2002 totaled $734,000 and $1.6 million, respectively. During the six months ended June 30, 2003, the Company recorded impairment against its real estate investments of $3.9 million on five property assets. The Company evaluates its real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset s carrying amount. The impairments were based on changes in factors including increased vacancies, lower market rental rates and decreased projections of operating cash flows which diminished prospects for recovery of the Company s full investment upon final disposition. The gains realized from real estate sales and the losses taken on impairments are included in the caption equity (loss) earnings in unconsolidated ventures in the Company s condensed consolidated statements of operations.

The Company s only financial obligations with respect to its real estate investments, beyond its investment, are (i) partial construction financing guarantees, backed by letters of credit, totaling $8.9 million; (ii) other letters of credit and guarantees of property debt totaling $2.8 million; and (iii) future capital commitments for capital improvements and additional asset purchases totaling $2.3 million.

9. Debt

At June 30, 2003, Insignia s debt consisted of the following:

	June 30, 2003
	(In thousands)
Notes Payable	
Senior revolving credit facility	$ 28,000
Subordinated credit facility	15,000
Acquisition loan notes	13,785
	56,785
Real Estate Mortgage Notes	71,986

Total	$ 128,771

The Company s debt includes borrowings under its $165.0 million senior revolving credit facility (as amended), borrowings under a $37.5 million subordinated credit facility entered into in June 2002, acquisition loan notes issued in connection with previous acquisitions in the United Kingdom and real estate mortgage notes collateralized by real estate properties.

The senior credit facility bears interest at a margin above LIBOR, which was 2.0% at June 30, 2003. In March 2003, Insignia repaid $67.0 million on the senior revolving credit facility as a result of the March 14, 2003

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

sale of its residential businesses, lowering its outstanding balance to $28.0 million. In conjunction with the pay-down, the commitment under the senior credit facility was reduced from $230.0 million to $165.0 million. The senior revolving credit facility matures in May 2004. The subordinated credit facility borrowings, which are subordinate to Insignia s senior credit facility, bear interest at an annual rate of 11.25%, payable quarterly. Insignia may borrow the remaining $22.5 million available under this credit facility through the period ending in December 2003. The subordinated debt matures in June 2009. The acquisition loan notes are payable to sellers of the acquired U.K. businesses and are backed by restricted cash deposits in approximately the same amount. The loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. The real estate mortgage notes are secured by property assets owned by consolidated subsidiaries. Maturities on the real estate mortgage notes range from December 2004 to October 2023.

10. Comprehensive Income (Loss)

The following table presents a calculation of comprehensive income (loss) for the periods indicated.

	Six Months Ended June 30,	
	2003	**2002**
	(In thousands)	
Net loss	$ (6,270)	$ (17,603)
Other comprehensive income (loss):		
Foreign currency translation	7,354	5,967
Reclassification adjustment for realized gain		(50)
Minimum pension liability		(61)
Total other comprehensive income (loss)	7,354	5,856
Total comprehensive income (loss)	$ 1,084	$ (11,747)

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Industry Segment Data

In 2003, Insignia s operating activities from continuing operations encompass only one reportable segment, commercial real estate services. The Company s residential real estate service businesses were disposed of in the first quarter of 2003 and are reported as discontinued operations. The Company s commercial service businesses offer similar products and services and are managed collectively because of the similarities between such services. These businesses provide services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other real estate financial services. Insignia s commercial businesses include Insignia/ESG in the United States, Insignia Richard Ellis in the United Kingdom, Insignia Bourdais in France and other businesses in continental Europe, Asia and Latin America. The following table summarizes certain geographic financial information for the periods indicated.

	Six Months Ended June 30,	
	2003	**2002**
	(In thousands)	
Total Revenues		
United States	$ 194,341	$ 187,644
United Kingdom	54,462	49,939
France	22,032	18,082
Other Europe	7,468	4,866
Asia and Latin America	3,985	2,724
	$ 282,288	$ 263,255
Long-Lived Assets		
United States	$ 277,262	$ 261,741
United Kingdom	120,334	112,138
France	31,794	25,013
Other Europe	8,471	5,637
Asia and Latin America	939	773
	$ 438,800	$ 405,302

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangible assets.

12. Contingencies

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies, including unasserted claims or assessments, which are probable and the amount of loss can be reasonably estimated are accrued in accordance with Statement of Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.

13. CB Richard Ellis Merger and Related Transactions

On February 17, 2003, Insignia entered into an Agreement and Plan of Merger with CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. (CB) and Apple Acquisition Corp., a wholly owned subsidiary of CB, pursuant to which, upon the terms and subject to the conditions set forth therein, including the approval of Insignia s stockholders, Apple Acquisition Corp. would be merged with and into Insignia (the Merger), with

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Insignia being the surviving corporation in the Merger and becoming a wholly owned subsidiary of CB. The Merger closed on July 23, 2003 and Insignia s common shareholders received cash consideration of $11.156 per share. Insignia incurred approximately $4.9 million of expenses for legal and other services in connection with the Merger during the first six months of 2003. Such expenses are included in administrative expenses in the Company s statement of operations for the six months ended June 30, 2003.

Separately, on July 23, 2003, Insignia sold substantially all of its real estate investment assets to Island Fund I LLC prior to the closing of the Merger. The purchase price in the sale aggregated $44.8 million and included $36.9 million paid in cash to Insignia at closing and the assumption by the buyer of $7.9 million in contractual obligations to certain executive officers, including the Company s Chairman, who are also officers of Island Fund. The Company recognized a loss of approximately $12.8 million (before income tax effects) in connection with the sale.

14. Supplemental Information

The following supplemental information includes: (i) condensed consolidating balance sheet as of June 30, 2003; and (ii) condensed consolidating statements of operations and cash flows for the six months ended June 30, 2003 and 2002, respectively, of the Company s domestic commercial service operations (including operations of Insignia/ESG, Inc. and unallocated administrative expenses and corporate assets of Insignia), all other operations (comprised of international service operations and real estate investment operations) and the Company on a consolidated basis. 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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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Balance Sheet

June 30, 2003

	Domestic Commercial Service Operations	Other Operations	Eliminations	Consolidated Total
		(In thousands)		
Assets				
Cash and cash equivalents	$ 38,386	$ 17,605	$	$ 55,991
Receivables, net	98,651	38,915		137,566
Restricted cash	14,300	6,853		21,153
Intercompany receivables	43,978		(43,978)	
Investment in consolidated subsidiaries	129,895		(129,895)	
Property and equipment, net	32,220	9,920		42,140
Real estate investments, net		131,411		131,411
Goodwill	112,662	147,903		260,565
Acquired intangible assets, net	426	4,258		4,684
Deferred taxes	54,501	7,585		62,086
Other assets, net	8,160	10,493		18,653
Total assets	$ 533,179	$ 374,943	$ (173,873)	$ 734,249
Liabilities and Stockholders Equity				
Liabilities:				
Accounts payable	$ 6,288	$ 2,711	$	$ 8,999
Commissions payable	43,548	2,196		45,744
Accrued incentives	10,704	3,254		13,958
Accrued and sundry	44,707	48,179		92,886
Deferred taxes	21,182	2,214		23,396
Intercompany payables		43,978	(43,978)	
Notes payable	56,785			56,785
Real estate mortgage notes		71,986		71,986
Total liabilities	183,214	174,518	(43,978)	313,754
Total stockholders equity	349,965	200,425	(129,895)	420,495
Total liabilities and stockholders equity	$ 533,179	$ 374,943	$ (173,873)	$ 734,249

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2003

	Domestic Commercial Service Operations	Other Operations	Eliminations	Consolidated Total
		(In thousands)		
Revenues	$ 193,333	$ 88,955	$	$ 282,288
Costs and expenses				
Real estate services	187,672	84,236		271,908
Property operations		3,664		3,664
Administrative	10,192			10,192
Depreciation and amortization	6,271	1,922		8,193
Property depreciation		753		753
	204,135	90,575		294,710
Operating loss	(10,802)	(1,620)		(12,422)
Other income and expenses:				
Interest income	593	1,053		1,646
Other income (expense)	41	(12)		29
Interest expense	(3,081)	(212)		(3,293)
Property interest expense		(841)		(841)
Equity earnings in consolidated subsidiaries	2,211		(2,211)	
Loss from continuing operations before income taxes	(11,038)	(1,632)	(2,211)	(14,881)
Income tax benefit	4,768	440		5,208
Loss from continuing operations	(6,270)	(1,192)	(2,211)	(9,673)
Discontinued operations, net of applicable taxes:				
Loss from operations		(360)		(360)
Income on disposal		3,763		3,763
Net loss	$ (6,270)	$ 2,211	$ (2,211)	$ (6,270)

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2002

	Domestic Commercial Service Operations	Other Operations	Eliminations	Consolidated Total
		(In thousands)		
Revenues	$ 179,835	$ 83,420	$	$ 263,255
Costs and expenses				
Real estate services	171,590	68,370		239,960
Property operations		3,165		3,165
Administrative	6,583			6,583
Depreciation and amortization	7,585	1,894		9,479
Property depreciation		1,058		1,058
	185,758	74,487		260,245
Operating (loss) income	(5,923)	8,933		3,010
Other income and expenses:				
Interest income	946	1,135		2,081
Other income (expense)	53	(40)		13
Interest expense	(4,060)	(278)		(4,338)
Property interest expense		(951)		(951)
Equity losses in consolidated subsidiaries	(12,213)		12,213	
(Loss) income from continuing operations before income taxes	(21,197)	8,799	12,213	(185)
Income tax benefit (expense)	3,594	(3,511)		83
(Loss) income from continuing operations	(17,603)	5,288	12,213	(102)
Discontinued operations, net of applicable taxes:				
Income from operations		2,869		2,869
Income on disposal		265		265
Income (loss) before cumulative effect of a change in accounting principle	(17,603)	8,422	12,213	3,032
Cumulative effect of a change in accounting principle, net of applicable taxes		(20,635)		(20,635)
Net loss	$ (17,603)	$ (12,213)	$ 12,213	$ (17,603)

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2003

	Domestic Commercial Service Operations	Other Operations	Consolidated Total
		(In thousands)	
Net cash used in operating activities	$ (22,851)	$ (27,887)	$ (50,738)
Investing activities			
Additions to property and equipment, net	(1,294)	(3,688)	(4,982)
Proceeds from real estate investments		4,154	4,154
Payments made for acquisitions of businesses		(4,071)	(4,071)
Proceeds from sale of discontinued operation		66,750	66,750
Investment in real estate		(4,732)	(4,732)
Decrease (increase) in restricted cash	2,977	(2,612)	365
Net cash provided by investing activities	1,683	55,801	57,484
Financing activities			
Decrease (increase) in intercompany receivables, net	53,518	(53,518)	
Proceeds from issuance of common stock	5,488		5,488
Preferred stock dividends	(1,593)		(1,593)
Payments on notes payable	(70,104)		(70,104)
Proceeds from real estate mortgage notes		5,191	5,191
Net cash used in financing activities	(12,691)	(48,327)	(61,018)
Net cash used in discontinued operations		(3,002)	(3,002)
Effect of exchange rate changes on cash		1,818	1,818
Net decrease in cash and cash equivalents	(33,859)	(21,597)	(55,456)
Cash and cash equivalents at beginning of period	72,245	39,202	111,447
Cash and cash equivalents at end of period	$ 38,386	$ 17,605	$ 55,991

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2002

	Domestic Commercial Service Operations	Other Operations	Consolidated Total
		(In thousands)	
Net cash (used in) provided by operating activities	$ (63,181)	$ 8,589	$ (54,592)
Investing activities			
Additions to property and equipment, net	(1,878)	(319)	(2,197)
Proceeds from real estate investments		30,940	30,940
Payments made for acquisitions of businesses	(804)	(5,351)	(6,155)
Proceeds from sale of discontinued operation		23,250	23,250
Investment in real estate		(4,897)	(4,897)
Decrease (increase) in restricted cash	3,932	(991)	2,941
Net cash provided by investing activities	1,250	42,632	43,882
Financing activities			
Decrease (increase) in intercompany receivables, net	35,275	(35,275)	
Proceeds from issuance of common stock	1,127		1,127
Proceeds from issuance of preferred stock, net	12,325		12,325
Preferred stock dividends	(633)		(633)
Payments on notes payable	(36,722)		(36,722)
Payments on real estate mortgage notes		(20,915)	(20,915)
Debt issuance costs	(866)		(866)
Net cash provided by (used in) financing activities	10,506	(56,190)	(45,684)
Net cash provided by discontinued operations		5,209	5,209
Effect of exchange rate changes on cash		1,641	1,641
Net (decrease) increase in cash and cash equivalents	(51,425)	1,881	(49,544)
Cash and cash equivalents at beginning of period	106,954	24,816	131,770
Cash and cash equivalents at end of period	$ 55,529	$ 26,697	$ 82,226

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INDEPENDENT AUDITORS REPORT

The Stockholders

Insignia Financial Group, Inc.:

We have audited the accompanying consolidated balance sheet of Insignia Financial Group, Inc. and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Insignia Financial Group, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, and the provisions of Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets effective January 1, 2002.

/S/ KPMG LLP

New York, New York

October 15, 2003

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REPORT OF INDEPENDENT AUDITORS

Board of Directors

Insignia Financial Group, Inc.

We have audited the accompanying consolidated statements of operations, stockholders equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations, changes in stockholders equity and cash flows of Insignia Financial Group, Inc. for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/S/ ERNST & YOUNG LLP

New York, New York

February 8, 2002, except Notes 3, 4, 5, 15 and 19,

as to which the date is October 15, 2003

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2002
	(In thousands)
Assets	
Cash and cash equivalents	$ 111,513
Receivables, net of allowance of $6,684	155,321
Restricted cash	21,518
Property and equipment, net	55,614
Real estate investments, net	134,135
Goodwill	289,561
Acquired intangible assets, less accumulated amortization of $65,276	17,611
Deferred taxes	47,609
Other assets, net	39,957
Assets of discontinued operation	
Total assets	$ 872,839
Liabilities and Stockholders Equity	
Liabilities:	
Accounts payable	$ 13,743
Commissions payable	63,974
Accrued incentives	52,324
Accrued and sundry	117,990
Deferred taxes	15,795
Notes payable	126,889
Real estate mortgage notes	66,795
Liabilities of discontinued operation	
Total liabilities	457,510
Stockholders Equity:	
Preferred stock, par value $.01 per share authorized 20,000,000 shares, Series A, 250,000 and Series B, 125,000 issued and outstanding shares	4
Common Stock, par value $.01 per share authorized 80,000,000 shares 23,248,242 issued and outstanding shares, net of 1,502,600 shares held in treasury	232
Additional paid-in capital	437,622
Notes receivable for common stock	(1,193)
Accumulated deficit	(16,241)
Accumulated other comprehensive loss	(5,095)
Total stockholders equity	415,329
Total liabilities and stockholders equity	$ 872,839

See accompanying notes to the consolidated financial statements.

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31	
	2002	**2001**
	(In thousands)	
Revenues		
Real estate services	$ 577,544	$ 613,253
Property operations	9,195	3,969
Equity earnings in unconsolidated ventures	3,482	13,911
Other income, net	793	2,096
	591,014	633,229
Costs and expenses		
Real estate services	526,076	554,744
Property operations	7,264	1,145
Administrative	14,344	13,439
Depreciation	13,915	12,509
Property depreciation	1,920	990
Amortization of intangibles	4,406	20,344
	567,925	603,171
Operating income	23,089	30,058
Other income and expenses:		
Interest income	3,936	4,853
Interest expense	(8,854)	(12,369)
Property interest expense	(2,122)	(1,744)
Losses from internet investments, net		(10,263)
Other expense		(661)
Income from continuing operations before income taxes	16,049	9,874
Income tax expense	(7,012)	(3,522)
Income from continuing operations	9,037	6,352
Discontinued operations, net of applicable tax		
Income (loss) from operations	4,180	(2,231)
Income (loss) on disposal	4,918	(17,629)
	9,098	(19,860)
Income (loss) before cumulative effect of a change in accounting principle	18,135	(13,508)
Cumulative effect of a change in accounting principle, net of applicable taxes	(20,635)	

Net loss	(2,500)	(13,508)
Preferred stock dividends	(2,173)	(1,000)
Net loss available to common shareholders	$ (4,673)	$ (14,508)

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

	Years Ended December 31	
	2002	**2001**
	(In thousands, except per share data)	
Per share amounts:		
Earnings per common share basic		
Income from continuing operations	$ 0.30	$ 0.24
Income (loss) from discontinued operations	0.39	(0.90)
Income (loss) before cumulative effect of a change in accounting principle	0.69	(0.66)
Cumulative effect of a change in accounting principle	(0.89)	
Net loss	$ (0.20)	$ (0.66)
Earnings per common share assuming dilution:		
Income from continuing operations	$ 0.29	$ 0.23
Income (loss) from discontinued operations	0.38	(0.85)
Income (loss) before cumulative effect of a change in accounting principle	0.67	(0.62)
Cumulative effect of a change in accounting principle	(0.87)	
Net loss	$ (0.20)	$ (0.62)
Weighted average common shares and assumed conversions:		
Basic	23,122	22,056
Assuming dilution	23,691	23,398

See accompanying notes to the consolidated financial statements.

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock	Preferred Stock	Additional Paid-in Capital	Notes Receivable for Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Loss	Total
	(In thousands, except share data)							
Balances at December 31, 2000	$ 216	$ 3	$ 413,831	$ (2,051)	$ 2,846	$ (5,964)		$ 408,881
Net loss					(13,508)		$ (13,508)	(13,508)
Other comprehensive income (loss):								
Foreign currency translation, net of tax benefit of $1,769						(2,033)	(2,033)	(2,033)
Unrealized gain on securities, net of tax of $7						7	7	7
Minimum pension liability, net of tax benefit of $696						(900)	(900)	(900)
Total comprehensive loss							$ (16,434)	
Exercise of stock options and warrants 381,241 shares of Common Stock issued	4		2,139					2,143
Issuance of 159,520 shares of Common Stock under Employee Stock Purchase Program	2		1,470					1,472
Issuance of 402,645 shares of Common Stock in connection with Insignia Bourdais acquisition	4		3,995					3,999
Restricted stock awards 30,330 shares of Common Stock issued			627					627
Restricted stock 279,370 shares issued	3		(3)					
Preferred stock dividend 25,000 shares of Common Stock issued			250		(1,250)			(1,000)
Payments on notes receivable for shares of Common Stock				169				169
Balances at December 31, 2001	$ 229	$ 3	$ 422,309	$ (1,882)	$ (11,912)	$ (8,890)		$ 399,857

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (CONTINUED)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Notes Receivable for Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive (Loss) Income	Total
	(In thousands, except share data)							
Balance at December 31, 2001 (from previous page)	$ 229	$ 3	$ 422,309	$ (1,882)	$ (11,912)	$ (8,890)		$ 399,857
Net loss					(2,500)		$ (2,500)	(2,500)
Other comprehensive income (loss)								
Foreign currency translation, net of tax of $6,215						12,383	12,383	12,383
Reclassification adjustment for realized gain, net of tax of $39						(50)	(50)	(50)
Unrealized gain on securities, net of tax of $752						1,128	1,128	1,128
Minimum pension liability, net of tax benefit of $3,832						(9,666)	(9,666)	(9,666)
Total comprehensive income							$ 1,295	
Exercise of stock options and warrants 113,519 shares of Common Stock issued	1		673					674
Issuance of 111,840 shares of Common Stock under Employee Stock Purchase Program	1		902					903
Issuance of 131,480 shares of Common Stock in connection with Insignia Bourdais acquisition	1		1,305					1,306
Restricted stock awards 87,155 shares of Common Stock issued	1		706					707
Preferred stock issuance 125,000 shares		1	12,269					12,270
Preferred stock dividend					(1,829)			(1,829)
Cancellation of notes receivable for 47,786 shares of Common Stock	(1)		(542)	543				
Payments on notes receivable for shares of Common Stock				146				146
Balance at December 31, 2002	$ 232	$ 4	$ 437,622	$ (1,193)	$ (16,241)	$ (5,095)		$ 415,329

See accompanying notes to consolidated financial statements.

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2002	**2001**
	(In thousands)	
Operating activities		
Income from continuing operations	$ 9,037	$ 6,352
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	20,241	33,843
Other expenses		661
Equity earnings in real estate ventures	(3,482)	(10,381)
Gain on sale of consolidated real estate property	(1,306)	
Foreign currency transaction gains		(331)
Losses from internet investments		10,263
Deferred income taxes	(644)	(2,754)
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Receivables	24,184	23,486
Other assets	(9,610)	5,656
Accrued incentives	(16,002)	(22,194)
Accounts payable and accrued expenses	1,157	(34,344)
Commissions payable	(21,893)	18,616
Cash provided by operating activities	1,682	28,873
Investing activities		
Additions to property and equipment	(8,388)	(11,789)
Investment in internet-based businesses		(4,010)
Distribution proceeds from real estate investments	44,648	63,787
Proceeds from sale of discontinued operations	23,250	
Payments made for acquisition of businesses, net of acquired cash	(8,918)	(18,983)
Investments in real estate	(46,684)	(33,905)
Decrease (increase) in restricted cash	3,964	(14,879)
Cash provided by (used in) investing activities	$ 7,872	$ (19,779)

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INSIGNIA FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31	
	2002	**2001**
	(In thousands)	
Financing activities		
Proceeds from issuance of common stock	$ 903	$ 1,472
Proceeds from issuance of preferred stock	12,270	
Proceeds from exercise of stock options	674	2,143
Preferred stock dividends	(1,829)	(1,000)
Payments on notes payable	(59,785)	(138,350)
Proceeds from notes payable	15,000	158,999
Payments on real estate mortgage notes	(28,361)	(33,086)
Proceeds from real estate mortgage notes	20,000	21,987
Debt issuance costs	(1,415)	(2,130)
Cash (used in) provided by financing activities	(42,543)	10,035
Net cash provided by (used in) discontinued operation	8,787	(4,402)
Effect of exchange rate changes in cash	3,789	(1,217)
Net (decrease) increase in cash and cash equivalents	(20,413)	13,510
Cash and cash equivalents at beginning of year	131,860	124,527
	111,447	138,037
Cash of discontinued operations	66	(6,177)
Cash and cash equivalents at end of year	$ 111,513	$ 131,860
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8,956	$ 11,036
Cash paid for income taxes	9,527	7,714

See accompanying notes to consolidated financial statements.

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

1. Business

Insignia Financial Group, Inc. (Insignia or the Company), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, the United Kingdom, France, continental Europe, Asia and Latin America. Insignia s principal executive offices are located at 200 Park Avenue in New York.

Insignia s real estate service businesses specialize in commercial leasing, sales brokerage, corporate real estate consulting, property management, property development and re-development, apartment brokerage and leasing, condominium and cooperative apartment management, real estate-oriented financial services, equity co-investment and other services. In 2002, Insignia s primary real estate service businesses include the following: Insignia/ESG (U.S. commercial real estate services), Insignia Richard Ellis (U.K. commercial real estate services), Insignia Bourdais (French commercial real estate services; acquired in December 2001), Insignia Douglas Elliman (New York apartment brokerage and leasing) and Insignia Residential Group (New York condominium, cooperative and rental apartment management). Insignia s commercial real estate service operations in continental Europe, Asia and Latin America include the following locations: Madrid and Barcelona, Spain; Frankfurt, Germany; Milan and Bologna, Italy; Brussels, Belgium; Amsterdam, The Netherlands; Tokyo, Japan; Hong Kong; Beijing and Shanghai, China; Bangkok, Thailand; Mumbai, Hyderabad, Bangalore, Chennai and Delhi, India; Manila, Philippines; and Mexico City, Mexico. The Company also owns 10% of an Irish commercial services company with offices in Dublin, the Republic of Ireland and Belfast, Northern Ireland.

In addition to traditional real estate services, Insignia has historically deployed its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP).

Principles of Consolidation

Insignia s consolidated financial statements include the accounts of all majority-owned subsidiaries and all entities over which the Company exercises voting control. All significant intercompany balances and transactions have been eliminated. Entities in which the Company owns less than a majority interest and has substantial influence are recorded on the equity method of accounting (net of payments to certain employees in respect of equity grants or rights to proceeds).

In one instance, a minority-owned partnership (with additional promotional interests in profits depending on performance) is consolidated by virtue of general partner control. Since the cumulative losses of the partnership have exceeded the limited partners original investment, the partnership is consolidated into Insignia s financial statements and no minority interest is reflected, even though Insignia holds a minority economic interest.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions are used in the evaluation and financial reporting for, among other things, bad debts, self-insurance

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

liabilities, intangibles and investment valuations, deferred taxes and pension costs. Actual results could differ from those estimates under different assumptions or conditions.

Reclassifications

Certain amounts for 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on the net loss or total stockholders equity previously reported.

Cash and Cash Equivalents

The amount of cash on deposit in federally insured institutions generally exceeds the limit on insured deposits. The Company considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents.

Restricted Cash

At December 31, 2002 restricted cash consisted of approximately $17.3 million in cash pledged to secure the bond guarantee of notes issued in connection with the Richard Ellis Group Limited (REGL) and St. Quintin Holdings Limited (St. Quintin) acquisitions and approximately $4.2 million related to accounts of the consolidated real estate entities.

Real Estate Investments

Insignia has invested in real estate assets and real estate related debt securities. Generally, the Company s investment strategy involves identifying investment opportunities and investing as a minority owner in entities formed to acquire such assets. The Company s minority-owned investments are generally accounted for under the equity method of accounting due to the Company s influence over the operational decisions made with respect to the real estate entities. The Company s portion of earnings in these real estate entities is reported in equity earnings in unconsolidated ventures in its consolidated statements of operations, including gains on sales of property and net of impairments. The Company s share of unrealized gains on marketable equity and debt securities available for sale is reported as a component of other comprehensive income (loss), net of tax. Income from dispositions of minority-owned development assets is reported in real estate services revenues in the Company s consolidated statements of operations. The Company s policy with respect to the timing of recognition of promoted profit participation interests in its real estate investments is to record such amounts upon collection.

Each entity in which the Company holds a real estate investment is a special purpose entity, the assets of which are subject to the obligations only of that entity. Each entity s debt, except for limited and specific guarantees and other commitments aggregating $14.0 million, is either (i) non-recourse except to the real estate assets of the subject entity (subject to limited exceptions standard in such non-recourse financing, including the misapplication of rents or environmental liabilities), or (ii) an obligation solely of such limited liability entity and thus having no recourse to other assets of the Company.

The Company provides real estate services to and receives real estate service fees from the entities comprising its principal investment activities. Such fees are generally derived from the following services: (i) property management, (ii) asset management, (iii) development management, (iv) investment management, (v) leasing, (vi) acquisition, (vii) sales and (viii) financings. With respect to fees that are currently recorded as expense by the entities, the Company includes the fees in current income, while its share as owner of such fee is

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

reflected in the income or loss from the investment entity. If the fee is capitalized by the investment entity, the Company records as income only the portion of the fee attributable to third party ownership and defers the portion attributable to its ownership.

The Company evaluates all real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset s carrying amount. Generally, Insignia relies upon the expertise of its own property professionals to assess real estate values; however, in certain circumstances where Insignia considers its expertise limited with respect to a particular investment, third party valuations may also be obtained. Property valuations and estimates of related future cash flows are by nature subjective and will vary from actual results.

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. Insignia early adopted SFAS No. 144 as of January 1, 2001. SFAS No. 144 requires, in most cases, that gains/losses from dispositions of investment properties and all earnings from such properties be reported as discontinued operations. SFAS No. 144 is silent with respect to treatment of gains or losses from sales of investment property held in a joint venture. The Company has concluded that, as a matter of policy, all gains and losses realized from sales of minority owned property in its real estate co-investment program constitute earnings from a continuing line of business. Therefore, operating activity related to that investment program will continue to be included in income (loss) from continuing operations. However, SFAS No. 144 requires that gains or losses from sales of consolidated properties, if material, be reported as discontinued operations. As a result, the Company s earnings from dispositions of consolidated properties would be excluded from reported income from continuing operations and included in discontinued operations, if material.

Consolidated Real Estate

At December 31, 2002, the Company consolidated three investment entities owning real estate property. These consolidated properties include a wholly owned retail property; a wholly owned marine development property and a minority owned residential property consolidated due to general partner control. Rental revenue attributable to the Company s consolidated property operations are recognized when earned. Real estate is stated at depreciated cost. The cost of buildings and improvements include the purchase price of property, legal fees and acquisitions costs. Costs directly related to the development property are capitalized. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

The Company periodically reviews its properties to determine if its carrying amounts will be recovered from future operating cash flows. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements, which could differ materially from actual results in future periods.

Development Activities

At December 31, 2002, the Company held minority investments in four office properties whose development the Company has directed. A variety of costs have been incurred in the development and leasing of these properties. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The Company s capitalization policy on its development properties is guided by SFAS No. 34, *Capitalization of Interest Costs*, and SFAS No. 67, *Accounting for Costs and the Initial Rental Operations of Real Estate Properties*. The Company ceases capitalization when a property is held available for occupancy upon substantial completion of tenant improvements.

Revenue Recognition

The Company s real estate services revenues are generally recorded when the related services are performed or at closing in the case of real estate sales. Leasing commissions that are payable upon tenant occupancy, payment of rent or other events beyond the Company s control are recognized upon the occurrence of such events. As certain conditions to revenue recognition for leasing commissions are outside of the Company s control and are not clearly defined, judgment must be exercised in determining when such events have occurred. Revenues from tenant representation, agency leasing, investment sales and residential brokerage, which collectively comprise a substantial portion of Insignia s service revenues, are transactional in nature and therefore subject to seasonality and changes in business and capital market conditions. As a consequence, the timing of transactions and resulting revenue recognition is difficult to predict.

Insignia s revenue from property management services is generally based upon percentages of the revenue generated by the properties that it manages. In conjunction with the provision of management services, the Company customarily employs personnel (either directly or on behalf of the property owner) to provide services solely to the properties managed. In most instances, Insignia is reimbursed by the owners of managed properties for direct payroll related costs incurred in the employment of property personnel. The aggregate amount of such payroll cost reimbursements has ranged from $50.0 million to $60.0 million annually. Such payroll reimbursements are generally characterized in the Company s consolidated statements of operations as a reduction of actual expenses incurred. This characterization is based on the following factors: (i) the property owner generally has authority over hiring practices and the approval of payroll prior to payment by the Company; (ii) Insignia is the primary obligor with respect to the property personnel, but bears little or no credit risk under the terms of the management contract; (iii) reimbursement to the Company is generally completed simultaneously with payment of payroll or soon thereafter; and (iv) the Company generally earns no margin in the arrangement, obtaining reimbursement only for actual cost incurred.

Advertising Expense

The cost of advertising is expensed as incurred. The Company incurred approximately $8,327,000 and $8,926,000 in advertising costs during 2002 and 2001, respectively.

Acquired Intangible Assets

The Company s acquired intangible assets consist of property management contracts, favorable leases, non-competitive agreements, trademarks and franchises. Acquired intangible assets are stated at cost, less accumulated amortization. These assets are amortized using the straight-line method over 3 to 20 years, and are reviewed when indicators of impairment exist. Intangible assets are reviewed for impairment when indicators of impairment exist.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, typically ranging from 3 to 10 years.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency

The financial statements of the Company s foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generate approximately 25% of the Company s annual revenues. All currencies other than the British pound, euro and dollar have comprised less than 1% of annual revenues. Revenues and expenses of all foreign subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of stockholders equity in accumulated other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income. For the twelve months ended December 31, 2002, the Company s European operations have been translated into U.S. dollars at average exchange rates of $1.51 to the pound and $0.95 to the euro. For the twelve months of 2001, European operations were translated to U.S. dollars at average exchange rates of $1.44 and $0.90 to the pound and euro, respectively.

The assets and liabilities of the Company s European operations have been translated at exchange rates of $1.60 to the pound and $1.05 to the euro at December 31, 2002.

Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of unrealized gains (losses) on marketable equity securities, foreign currency translation and minimum pension liability adjustments. At December 31, 2002, accumulated other comprehensive losses totaled $5.1 million (net of applicable taxes), comprised of unrealized gains on marketable securities of $1.1 million and foreign currency translation gains of $4.4 million and a minimum pension liability of $10.6 million.

Minority Interest

During the first half of 2000, Insignia consolidated EdificeRex.com, Inc. (EdificeRex), the Company s internally developed internet-based business that launched in February 2000, and recorded net operating losses of approximately $9.3 million, or $3.2 million in excess of the Company s investment. EdificeRex was de-consolidated in the third quarter of 2000, due to an equity restructuring that reduced the Company s voting interest to approximately 47%. The $3.2 million excess loss was carried as a deferred credit on the Company s balance sheet until EdificeRex disposed of all of its operating divisions and liquidated during the fourth quarter of 2001. At liquidation, the Company recognized the deferred credit of $3.2 million in earnings, which is included in losses from internet investments.

Income Taxes

Deferred income tax assets and liabilities are recorded to reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and operating loss and tax credit carry forwards. Valuation allowances are provided against deferred tax assets that are unlikely to be realized. Federal income taxes are not provided on the unremitted earnings of foreign subsidiaries because it has been the practice of the Company to reinvest those earnings in the businesses outside the United States.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Impairment

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 provides guidance for accounting and financial reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, it retains the fundamental provisions of that Statement. It also supersedes the accounting and reporting of APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* related to the disposal of a segment of a business. However, it retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity either disposed of or classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Insignia early adopted SFAS No. 144 as of January 1, 2001.

Impairment losses are recognized for long-lived assets held and used when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets carrying amount. Impairment losses are measured for assets held for sale by comparing the fair value of assets (less costs to dispose) to their respective carrying amounts.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. As described in Note 4, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 5 to 25 years, and evaluated for potential impairment by determining whether the underlying undiscounted cash flows of the acquired business were sufficient to recover the carrying value of the asset.

Stock-Based Compensation

At December 31, 2002, the Company had four stock-based employee compensation plans that are described more fully in Note 14. Prior to 2002, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25*, Accounting for Stock Issued to Employees* and related interpretations. Effective January 1, 2002 the Company adopted the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, prospectively to all employee awards granted, modified or settled after January 1, 2002. Awards under the Company s plans vest over five years. The cost related to stock-based employee compensation included in the determination of net

income for 2002 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 123. The following table illustrates the pro forma effect on net income and earnings per share if the fair value based method had been applied to all outstanding awards in each period.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company s pro forma information follows:

	2002	2001
	(In thousands, except per share data)	
Pro forma:		
Income from continuing operations	$ 6,556	$ 4,014
Net loss	(4,981)	(15,846)
Per share amounts:		
Pro forma earnings per share basic		
Income from continuing operations	$ 0.19	$ 0.14
Net loss	(0.31)	(0.76)
Pro forma earnings per share assuming dilution		
Income from continuing operations	0.19	0.13
Net loss	(0.30)	(0.72)

The pro forma information has been determined as if the Company had accounted for its employee stock options, warrants and unvested restricted stock awards granted under the fair value method with fair values estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	2002	2001
Risk-free interest rate	2.5%	3.7%
Dividend yield	N/A	N/A
Volatility factors of the expected market price	0.45	0.49
Weighted-average expected life of the options	3.9	4.3

The Black-Scholes option valuation model was developed for use in estimating the fair value of transferable options and warrants with no vesting restrictions. This method requires the input of subjective assumptions including the expected stock price volatility and weighted average expected life of the options. The Company s employee stock options have characteristics significantly different from those of transferable options and changes in the subjective input assumptions can materially affect the value estimate. The Black-Scholes model is not the only reliable measure that could be used to determine the fair value of employee stock options. The Company believes that any and all valuations of employee stock options will necessarily be estimates.

Risks and Uncertainties

The Company s future results could be adversely affected by a number of factors, including (i) a general economic downturn in the Company s principal markets, most notably New York, London and Paris; (ii) unfavorable foreign currency fluctuations; (iii) changes in interest rates; and (iv) fluctuations in rental rates and real estate values.

Earnings Per Share

Basic earnings per share is calculated using income available to common shareholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive securities, such as preferred stock, options and warrants, had been issued or exercised.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. A public enterprise with a variable interest in a variable interest entity created before February 1, 2003, shall apply this guidance (other than the required disclosures prior to the effective date) to that entity as of the beginning of the first interim or annual reporting period beginning after December 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company s consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.* This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company s consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 provides guidance for accounting and financial reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity.* SFAS No. 146 requires the recognition of a liability for costs associated with an exit or disposal activity when the liability is incurred and establishes fair value as the initial measurement of a liability. Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date of a commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002.

3. Discontinued Operations

Sale of Insignia Douglas Elliman and Insignia Residential Group

On March 14, 2003, Insignia completed the sale of its New York-based residential businesses, Insignia Douglas Elliman and Insignia Residential Group, to Montauk Battery Realty, LLC. Montauk Battery Realty is located on Long Island, New York and its principal owners are New Valley Corp. and Dorothy Herman, chief executive officer of Prudential Long Island Realty. Insignia Douglas Elliman, acquired by Insignia in June 1999, provides sales and rental services in the New York City residential cooperative, condominium and rental apartment market and also operates in upscale suburban markets in Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Insignia Residential Group

is the largest manager of cooperative, condominium and rental apartments in the New York metropolitan area.

The financial terms of the sale included the payment of $66.75 million in cash to Insignia at closing of the transaction, $500,000 in cash held in escrow on the closing date and up to another $500,000 held in escrow pending receipt of specified commissions. In addition, the buyer acceded to existing contingent earn-out obligations of Insignia Douglas Elliman totaling up to $4.0 million, depending on the future of the business. The

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

escrowed amounts are available to secure Insignia s indemnity obligations under the purchase and sale agreement. Any amounts remaining in escrow on March 14, 2004 and not securing previously made indemnity claims will be released to Insignia. Simultaneous with closing, Insignia paid down $67.0 million on its senior revolving credit facility, decreasing outstanding borrowings to $28.0 million. Insignia recognized a net gain of approximately $3.8 million (net of $4.7 million of applicable income taxes) during the first quarter of 2003 in connection with the sale of these residential businesses.

The operations of Insignia Douglas Elliman and Insignia Residential Group were discontinued in the first quarter of 2003. The Company s statements of operations and statements of cash flows for the years ended December 31, 2002 and 2001 have been restated to classify the operations and cash flows of these residential businesses as discontinued operations for financial reporting purposes.

Sale of Realty One

In December 2001, Insignia entered into a contract to sell its Realty One single-family home brokerage business and affiliated companies to Real Living, Inc., effective as of December 31, 2001. Real Living, Inc. is a privately held company formed by HER Realtors of Columbus, Ohio and Huff Realty of Cincinnati, Ohio. The sale closed on January 31, 2002. Proceeds from the sale potentially total $33.0 million, including approximately $29.0 million in cash received at closing (before extinguishment of $5.5 million of Realty One debt) and additional receipts aggregating as much as $4.0 million. The additional receipts include the following: (i) a $1.0 million reimbursement, collected in February 2002, for Realty One operating losses in January 2002; (ii) a potential earn-out of as much as $2 million receivable through 2003 (depending on the performance of the Realty One business); and (iii) a $1 million operating lease receivable over four years for the use of proprietary software developed by Insignia for an internet-based residential brokerage model. The $2.0 million earnout is receivable in increments of $1.0 million each for the 2002 and 2003 fiscal years. The first $1.0 million earnout for the 2002 fiscal year was achieved in full and be received by the Company in May 2003, as required by the terms of the sale. Remaining amounts due to Insignia under the terms of the sale totaling $2.7 million were included in other assets in the Company s consolidated balance sheet at December 31, 2002. Insignia recognized a loss in connection with the sale of Realty One of $17.6 million (net of applicable tax benefit of $4.0 million) for the year ended December 31, 2001. During the twelve months ended December 31, 2002, the Company recognized net income of $4.9 million from discontinued operations, including $265,000 (net of tax), in post-closing adjustments in the first quarter and $4.7 million in the third quarter from the reduction of a valuation allowance on the tax benefit on the capital portion of the loss on sale. This capital loss was fully reserved in 2001 because of uncertainty of its deductibility due to loss disallowance rules in the Treasury Regulations and insufficient income of the appropriate character. In the third quarter of 2002, it was determined that the loss would be fully deductible for tax purposes, resulting in the realization of a tax benefit for financial reporting purposes.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The results of operations of Insignia Douglas Elliman, Insignia Residential Group and Realty One are reported separately as discontinued operations for the years ended December 31, 2002 and 2001. The following tables summarize the aggregate assets and liabilities of Insignia Douglas Elliman and Insignia Residential Group at December 31, 2002 and the results of operations and income (loss) on disposal of Insignia Douglas Elliman, Insignia Residential Group and Realty One for the periods presented (in thousands):

Assets	
Cash and cash equivalents	$ 66
Receivables	2,479
Mortgage loans held for sale	
Property and equipment	11,766
Goodwill	34,117
Acquired intangible assets	11,999
Other assets	5,542
	65,969
Liabilities	
Accounts payable	2,535
Commissions payable	564
Accrued incentives	3,027
Accrued and sundry liabilities	4,045
Mortgage warehouse line of credit	
Notes payable	
	10,171
Net assets of discontinued operations	$ 55,798

	Years ended December 31	
	2002	**2001**
	(In thousands)	
Revenues	$ 133,691	$ 222,043
Income (loss) from operations, net of tax expense of $3,707 (2002) and tax benefit of $1,123 (2001)	4,180	(2,231)
Income (loss) on disposal, net of applicable tax benefits of $2,844 (2002) and $4,000 (2001)	4,918	(17,629)
Net income (loss)	$ 9,098	$ (19,860)

4. Changes in Accounting Principles

Stock-Based Compensation

In September 2002, the Company adopted the fair value expense recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, in accounting for employee stock options. The accounting change results in the expensing of the estimated fair value of employee stock options granted by the Company, applied on a prospective basis for all stock options granted on or after January 1, 2002. The Company previously followed Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under APB Opinion No. 25, no compensation expense is recognized when the exercise price of an employee stock option equals or exceeds the market price at issuance.

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company issued 290,000 employee options during 2002. The fair value of these options has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) estimated stock price volatility of 40%; (ii) risk free interest rate of 2.5%; (iii) weighted average option life of 3.9 years; and (iv) a forfeiture rate of 3%. Under these assumptions, the aggregate value of the options totaled approximately $384,000, which is amortizable to expense over the vesting periods of six years. For 2002, stock compensation expense recognized totaled approximately $102,000.

The ultimate impact of the accounting change on the Company s future earnings will depend on the number of options issued in the future, as to which the Company has no specific plan, and the estimated value of each option. Insignia does not expense the value of outstanding options issued before January 1, 2002.

Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 replaced APB 16 and requires the use of the purchase method for all business combinations initiated after June 30, 2001. It also provides guidance on purchase accounting related to the recognition of intangible assets. Under SFAS 142, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to impairment tests on an annual basis, at a minimum, or whenever events or circumstances occur indicating goodwill or indefinite-lived intangibles might be impaired. Other acquired intangible assets with finite lives continue to be amortized over their estimated useful lives. The Company adopted SFAS No. 141 for all business combinations completed after June 30, 2001 and fully implemented SFAS No. 141 and SFAS No. 142 effective January 1, 2002. The Company identified its reporting units and determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those units as of January 1, 2002 for purposes of performing a required transitional goodwill impairment assessment within six months of adoption.

In early 2002, the Company performed internal analyses on its reporting units based on estimated industry multiples and the carrying values of tangible and intangible assets which demonstrated that the value of the Company s U.S. commercial operation significantly exceeded its carrying value and that goodwill of the Asian operation was fully impaired.

These analyses also indicated potential impairment in the Company s European operations and Insignia Douglas Elliman. The Company engaged Standard & Poor s to value the European and Insignia Douglas Elliman operations and those appraisals indicated no impairment in the Company s European operations and partial impairment in Insignia Douglas Elliman.

As a result of this evaluation, Insignia measured impairment for Insignia Douglas Elliman and the Asian business of an aggregate $30.0 million, before applicable taxes. The Company recorded a $20.6 million (net of tax benefit of $9.4 million) transitional goodwill impairment charge in earnings as the cumulative effect of a change in accounting principle, effective January 1, 2002.

The Company concluded its annual impairment test as of December 31, 2002, and that test did not demonstrate further goodwill impairment. The estimation of business values for measuring goodwill impairment is highly subjective and selections of different projected income levels and valuation multiples within observed ranges can yield different results.

Amortization of goodwill (from continuing operations) totaled approximately $14.8 million for 2001. Elimination of goodwill amortization would have improved income from continuing operations by approximately

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

$10.3 million (net of applicable taxes) for 2001. The following table provides pro forma information to reflect the effect of adoption of SFAS No. 142 on earnings for 2001.

	2001
	(In thousands)
Reported income from continuing operations	$ 6,352
Less: Preferred stock dividend	(1,000)
Income from continuing operations available to common shareholders	5,352
Add: Goodwill amortization, net of tax benefit of $4,520	10,260
Adjusted income from continuing operations available to common shareholders	$ 15,612
Earnings per common share basic:	
Reported income from continuing operations	$ 0.24
Add: Goodwill amortization, net of tax benefit of $0.20	0.47
Adjusted income from continuing operations	$ 0.71
Earnings per common share assuming dilution:	
Reported income from continuing operations	$ 0.25
Add: Goodwill amortization, net of tax benefit of $0.18	0.41
Adjusted income from continuing operations	$ 0.66

Additional contingent purchase price of acquired businesses totaling $17.9 million was recorded as additional goodwill during 2002. Such additional purchase price included: (i) Insignia Bourdais earnout of $10.3 million (paid by issuance of 131,480 shares of Insignia common stock, a cash payment of $4.7 million and $4.3 million accrued at December 31, 2002); (ii) a $4.0 million earnout with respect to the prior Boston acquisition by Insignia/ESG; (iii) a $2.0 million earnout related to Insignia Douglas Elliman; and (iv) $1.6 million of payments related to other acquisitions. The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2001 to December 31, 2002.

	Commercial	Residential	Total
		(In thousands)	
Balance as of December 31, 2001	$ 228,967	$ 59,386	$ 288,353
Effect of adoption of SFAS 142	(3,201)	(26,822)	(30,023)

Balance as of January 1, 2002	225,766	32,564	258,330
Additional purchase consideration	15,922	2,000	17,922
Other reclassifications	(143)		(143)
Goodwill related to partial sale of business unit		(447)	(447)
Foreign currency translation	13,899		13,899
Balance as of December 31, 2002	$ 255,444	$ 34,117	$ 289,561

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table presents certain information on the Company s acquired intangible assets as of December 31, 2002 (in thousands):

Acquired Intangible Assets	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
Property management contracts	7 years	$ 72,883	$ 60,081	$ 12,802
Favorable premises leases	8 years	4,831	1,667	3,164
Other	3 years	5,173	3,528	1,645
Total		$ 82,887	$ 65,276	$ 17,611

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in Other consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate reported acquired intangible amortization expense for 2002 and 2001 totaled approximately $4.4 million and $5.6 million, respectively. Amortization of favorable premises leases, totaling approximately $157,000 for 2002 is included in rental expense (included in real estate services expenses) in the Company s consolidated statements of operations.

The estimated acquired intangible assets amortization expense, including amounts reflected in rental expense, for the subsequent five fiscal years through December 31, 2007 approximates $2.0 million, $941,000, $550,000, $523,000 and $370,000, respectively.

5. Earnings Per Share

The following table sets forth the computation of the numerator and denominator used for the computation of basic and diluted earnings per share for the periods indicated.

	2002	2001
	(In thousands)	
Numerator:		

Numerator for basic and diluted earnings per share income available to common stockholders after assumed conversions (before discontinued operations and cumulative effect)	$ 6,864	$ 5,352
Denominator:		
Denominator for basic earnings per share weighted average common shares	23,122	22,056
Effect of dilutive securities:		
Stock options, warrants and unvested restricted stock	569	1,342
Denominator for diluted earnings per share weighted average common shares and assumed conversions	23,691	23,398

The potential dilutive shares from the conversion of preferred stock is not assumed for the year ended December 31, 2002 or 2001, because the inclusion of such shares would be antidilutive.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Acquisitions

The Company s significant acquisitions during the last two years are discussed below. All acquisitions were accounted for as purchases and the results of operations have been included in Insignia s statement of operations from the respective date of acquisition. Contingent purchase consideration is generally accounted for as additional costs in excess of net assets of acquired businesses when incurred.

Groupe Bourdais

In late December 2001, Insignia completed the acquisition of Groupe Bourdais, one of France s premier commercial real estate services companies. Groupe Bourdais now operates under the Insignia Bourdais name. The Insignia Bourdais purchase price consists of total potential consideration of approximately $50.2 million. Amounts paid and or accrued in cash or stock (534,125 common shares) at December 31, 2002 total approximately $31.7 million. Additional consideration up to approximately $18.5 million may be paid over the two years ending December 31, 2004, depending on the performance of the Insignia Bourdais operation. The acquisition consisted substantially of specifically identified intangible assets and goodwill. Identified intangible assets, included customer backlog, property management contracts, a non-compete agreement, franchise agreements, trademarks and a favorable premises lease. The results of Insignia Bourdais have been included in the Company s financial statements since January 1, 2002.

Baker Commercial

In October 2001, Insignia acquired Baker Commercial Real Estate (Baker), a leading provider of commercial real estate services in the greater Dallas area. Baker provides tenant representation, land and investment property sales, and strategic real estate planning. The Baker acquisition augments Insignia s existing regional tenant representation and investment sales capabilities in the greater Dallas area. The base purchase price was approximately $2.2 million and was paid in cash. Additional purchase consideration of up to $1.0 million payable over 2003 and 2004 is contingent on the future performance of the Dallas operations.

Other Information (Unaudited)

Pro forma unaudited results of operations for the year ended December 31, 2001, assuming consummation of the Bourdais acquisition at January 1, 2001, is as follows (in thousands, except per share data):

Revenues	$ 672,115

Income from continuing operations	9,012
Net loss	(11,053)
Pro forma per share amounts:	
Net loss basic	$ (0.50)
Net loss assuming dilution	(0.47)

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

These pro forma results do not purport to represent the operations of the Company nor are they necessarily indicative of the results that actually would have been realized by the Company if the purchase of these businesses had occurred at the beginning of the periods specified. Except for the Bourdais acquisition, the financial operations of the acquired businesses were not significant to those of the Company. The base purchase consideration for the Bourdais and Baker acquisitions and other individually insignificant acquisitions is summarized as follows:

	2001
	(In thousands)
Common stock	$ 4,000
Accrued and sundry liabilities	10,990
Cash paid at the closing dates	20,508
	$ 35,498

The base purchase consideration was allocated as follows:

	2001
	(In thousands)
Cash acquired	$ 8,856
Receivables	5,469
Property and equipment	415
Property management contracts	1,008
Non-compete agreements	153
Goodwill	14,540
Other assets	5,057
	$ 35,498

7. Receivables

At December 31, 2002, receivables consisted of the following (in thousands):

Commissions and accounts receivable, net of allowance	$ 140,589

Notes receivable:	
Broker signing bonuses and advances	7,111
Brokerage and other employees	3,483
Executive officers, with interest at the Company s cost of debt capital (approximately 5.25%)	3,269
Reimbursement due from Chairman (collected on February 28, 2003)	691
Other	178
	14,732
	$ 155,321

Accounts receivable consists primarily of property management fees and cost reimbursements. Commissions receivable consists primarily of brokerage and leasing commissions from users of the Company s real estate services. The Company s receivables are not collateralized; however, credit losses have been insignificant. The Company s bad debt expense totaled approximately $5.0 million and $1.9 million in 2002 and 2001, respectively.

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INSIGNIA FINANCIAL GROUP, INC.

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Long-term commissions receivable totaling $8.4 million at December 31, 2002 have been discounted to their present value based on an estimated discount rate of 5.25%. Broker signing bonuses and advances are generally forgiven over the terms of employment, subject to potential repayment based on certain specific conditions.

Principal collections on brokerage, employee and executive notes receivable and scheduled forgiveness of Broker signing bonuses and advances are as follows:

	Amount
	(In thousands)
2003	$ 6,369
2004	2,865
2005	3,860
2006	1,205
2007	433
	$ 14,732

8. Property and Equipment

At December 31, 2002, property and equipment consisted of the following (in thousands):

Data processing equipment	$ 32,010
Computer software	34,291
Furniture and fixtures	17,466
Leasehold improvements	19,805
Other equipment	7,436
	111,008
Less: Accumulated depreciation	(55,394)
	$ 55,614

The useful life of each property and equipment category is listed below: Data processing equipment, 3 years; Computer software, 2-10 years; Furniture and fixtures, 7-10 years; Leasehold improvements, generally 5-10 years; Other equipment, 3-7 years.

9. Real Estate Investments

The Company has engaged in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its own behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt. The Company is currently not engaged in new investments although, is continuing its investment in existing real estate entities as needed or required by current business plans.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2002, the Company s real estate investments totaled $134.1 million and consisted of the following (in thousands):

Minority interests in operating properties	$ 21,109
Consolidated properties	85,205
Minority owned development properties	10,014
Land held for future development	1,726
Minority interests in real estate debt investment funds	16,081
Total Real Estate Investments	$ 134,135

The real estate carrying amounts of the three consolidated properties at December 31, 2002 were financed by real estate mortgage notes encumbering the assets totaling $66.8 million. At December 31, 2002, Insignia had equity investments of approximately $21.7 million in these consolidated properties and has no further obligations to the subsidiaries or their creditors.

Insignia maintains an incentive compensation program pursuant to which certain employees, including executive officers, participate in the profits generated by its real estate investments, through grants of either equity interests (at the time investments are made) or contractual right to participate in proceeds from successful investments. Such grants generally consist of an aggregate of 50% to 63.5% of the cash proceeds paid to Insignia after Insignia has recovered its full investment plus a 10% per annum return thereon. In addition, upon disposition, the Company generally makes discretionary incentive payments of 5% to 10% to certain employees who directly contributed to the success of an investment. With respect to the private investment funds, employees are collectively entitled to share 55% to 60% of proceeds received by Insignia in respect of its promoted profits participation in those funds. Employees share only in promoted profits and are not entitled to any portion of earnings on the Company s actual investment. Gains on sales of real estate and equity earnings for 2002 and 2001 are recorded net of employee entitlements and discretionary incentives of approximately $8.1 million and $10.8 million, respectively. The Company s principal investment programs are more fully described below.

Property Investment

The Company maintains minority investments in operating real estate assets including office, retail, industrial, apartment and hotel properties. As of December 31, 2002, Insignia held equity investments totaling $21.1 million in 30 minority owned property assets. These properties consist of approximately 6.0 million square feet of commercial property and 1,967 multi-family apartment units and hotel rooms. The Company s minority ownership interests in co-investment property range from 1% to 33%. Gains realized from sales of real estate by minority owned ventures totaled $4.2 million in 2002 and $11.0 million in 2001. Such amounts are included in the caption equity earnings in unconsolidated ventures in the Company s consolidated statements of operations.

Insignia also consolidates two operating properties, a wholly owned retail property located in Norman, Oklahoma and a New York City apartment complex owned by a limited partnership in which the Company owns a 1% controlling general partner interest. These properties contain approximately 155,000 square feet of commercial space and 420 multi-family apartment units. With respect to the New York City apartment complex, in addition to its 1% interest, Insignia is entitled to approximately $1.3 million of the first $7.3 million distributed and approximately 45% of all additional distributions. In July 2002, Insignia invested approximately $1.3 million in the limited partnership as a new limited partner pursuant to a $1.5 million equity financing and the purchase of an existing partners interest. The remaining equity financing was invested in June 2002 by existing limited partners. Certain executives and other employees of Insignia have the right to acquire from the Company, at its

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

cost, approximately 50% of the $1.3 million limited partner investment made in July 2002. Such executives and employees have no other incentive grants or participation rights with respect to this investment.

Although Insignia s economic interest in the New York City apartment complex at its initial investment was nominal (until the limited partners received a return of all invested capital), the Company commenced consolidating this property in its financial statements as of January 1, 2002 because (i) the partnership agreement for the property-owning partnership grants the general partner complete authority over the management and affairs of the partnership, including any sale or refinancing of its sole asset without limited partner approval, and (ii) accounting principle s generally accepted in the United States require consolidation on the basis of voting control (regardless of the level of equity ownership).

At December 31, 2002, the carrying amounts of these two consolidated properties totaled $46.4 million, and non-recourse real estate mortgage debt totaled $46.8 million. In September 2002, a consolidated retail property was sold for a $1.3 million net gain. The gain is included under the caption other income, net in the Company s consolidated statements of operations.

Development

The Company s development program includes minority-owned office developments and a wholly owned marina based development located in the U.S. Virgin Islands. In July 2002, a subsidiary of the Company acquired three contiguous parcels of property and related leasehold rights in St. Thomas, U.S. Virgin Islands, which comprise 32.3 acres of property, including 18 submerged acres with full water rights. The initial purchase price was approximately $35.0 million, paid with $18.5 million in cash and $20.0 million borrowed by the subsidiary under a non-recourse $40.0 million mortgage loan facility. The property is currently undergoing predevelopment activities together with operating activities of an existing marina. The property and its debt are consolidated in the Company s consolidated financial statements. Insignia s equity investment in the property totaled $19.3 million at December 31, 2002.

Insignia also has minority ownership in four office projects whose development is directed by the Company and owns a parcel of land in Denver, located adjacent to one of the office developments, that is held for future development. Development activities on all four office buildings have been completed other than tenant improvements associated with additional leasing. Insignia s ownership in the four office developments ranges from 25% to 33% and all have commenced operations.

The Company s only financial obligations with respect to the office developments, beyond its investment, are partial construction financing guarantees, backed by letters of credit, totaling $8.9 million. The Company s investment in the office development assets and land parcel totaled $11.7 million at December 31, 2002. The Company has not initiated any new office developments since September 2000 and does not currently intend to further expand this development program.

Interest capitalized in connection with development properties totaled approximately $1,673,000 and $500,000 in 2002 and 2001, respectively.

Private Investment Funds

Insignia Opportunity Trust (IOT) is an Insignia-sponsored private real estate investment fund formed in late 1999. IOT, through its subsidiary operating partnership, Insignia Opportunity Partners (IOP), invests primarily in secured real estate debt instruments and, to a lesser extent, in other real estate debt and equity instruments, with a focus on below investment grade commercial mortgage-backed securities. IOT completed its

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

deployment of committed capital (totaling $71.0 million) in 2002, of which $10.0 million was invested by Insignia and the remainder by third-party investors. Insignia has an aggregate ownership interest of approximately 13% in IOT and IOP and also has a 10% non-subordinated promoted interest in IOP.

In September 2001, Insignia closed the capital-raising phase for a second real estate investment fund, Insignia Opportunity Partners II (IOP II), with $48.5 million of equity capital commitments from Insignia and third-party investors. IOP II invests primarily in secured real estate debt instruments, similar to the investment initiatives of IOT. IOP II had called $28.2 million of its total capital commitments at December 31, 2002. Insignia holds a 10% ownership in IOP II and serves as its day-to-day advisor.

Insignia realized total earnings from both funds of approximately $4.0 million (2002) and $2.6 million (2001). Such earnings are included in equity earnings in unconsolidated ventures.

At December 31, 2002, Insignia held investments totaling $16.1 million in IOT, IOP and IOP II and had commitments to invest an additional $2.1 million in IOP II. The following table summarizes financial information of IOT and IOP II as of December 31, 2002 (in thousands):

Total assets	$ 150,139
Total liabilities	36,358
Total revenues	25,992

Apart from its real estate investments, Insignia had obligations totaling $14.0 million to all real estate entities at December 31, 2002, which consisted of the following (in thousands):

Letters of credit partially backing construction loans	$ 8,900
Other partial guarantees of property debt	2,825
Future capital contributions for capital improvements	150
Future capital contributions for asset purchases	2,105
Total Obligations	$ 13,980

Outstanding letters of credit generally have one-year terms to maturity and bear standard renewal provisions. Other letters of credit and guarantees of property debt do not bear formal maturity dates and remain outstanding until certain conditions (such as final sale of property and funding of capital commitments) have been satisfied. The future capital contributions represent contractual equity commitments for specified activities of the respective real estate entities. Insignia, as a matter of policy, would consider advancing funds to real estate entities beyond its legal obligation as a new capital contribution subject to normal investment returns.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Summarized financial information of unconsolidated real estate entities is as follows:

Condensed Statements of Operations Information	Year ended December 31 2002	2001
	(In thousands)	
Revenues	$ 197,255	$ 222,502
Total operating expenses	(190,543)	(208,556)
Income before gains on sales of properties	6,712	13,946
Gains on sales of properties	41,252	107,025
Net income	$ 47,964	$ 120,971
Company s share of net income:		
Included in equity earnings in unconsolidated ventures	$ 3,482	$ 13,911

Equity earnings in unconsolidated ventures included pre-tax gains on dispositions of minority-owned investments totaling $4.2 million and $11.0 million in 2002 and 2001, respectively.

Condensed Balance Sheet Information	December 31, 2002
	(In thousands)
Cash and investments	$ 46,068
Receivables and deposits	25,946
Investments in commercial mortgage backed securities	127,116
Investments in mezzanine loans	1,731
Other assets	31,573
Real estate	1,056,037
Less accumulated depreciation	(95,891)
Net real estate	960,146
Total assets	$ 1,192,581

Mortgage notes payable	$ 712,601
Other liabilities	27,435
Total liabilities	740,036
Partners capital	452,545
Total liabilities and partners capital	$ 1,192,581

Real Estate Impairment

During 2002, the Company recorded impairment against its real estate investments of $3.5 million on eight property assets. The impairment charge includes $560,000 for a owned land parcel in Denver, held for future development, based on a third party appraisal. The Company recorded an impairment charge during 2001 of $824,000.

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Other Assets

At December 31, 2002, other assets consisted of the following (in thousands):

Loan costs, net	$ 2,412
Amount receivable in connection with disposition	2,693
Federal tax refund receivable (domestic)	3,966
Prepaid taxes	5,246
Other prepaid expenses	12,088
Real estate sales proceeds	7,865
Other	5,687
	$ 39,957

Real estate sales proceeds of $7.9 million represents sale proceeds from a minority owned real estate property received in December 2002 and payable to a third party investor in 2003. The corresponding payable is included in the Company s accrued and sundry liabilities at December 31, 2002.

11. Accrued and Sundry Liabilities

At December 31, 2002, accrued and sundry liabilities consisted of the following (in thousands):

Employee compensation and benefits	$ 13,791
Acquisition related lease and annuity liabilities	6,379
Amounts payable in connection with acquisitions	6,450
Deferred compensation	21,192
Deferred revenue	13,948
Current taxes payable	7,175
Value added taxes	6,312
Minimum pension liability	14,571
Real estate sales proceeds payable	7,865
Liabilities of consolidated real estate entities	3,136
Other	17,171
	$ 117,990

Deferred revenue consists of lease commissions collected but deferred due to contingencies and the Company s ownership portion of acquisition and development fees in certain real estate partnerships. Deferred acquisition and development fees are realized in income upon disposal of the Company s ownership, generally from property sales, and deferred leasing commissions are recognized upon the fulfillment of all conditions to commission payment, such as tenant occupancy or payment of rent.

12. Private Financing

In June 2002, Insignia executed agreements for $50.0 million of new capital through a private investment by funds affiliated with Blackacre Capital Management, LLC (Blackacre). The investment consists of $12.5

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

million in newly issued shares of Series B convertible preferred stock and a commitment to provide $37.5 million of subordinated debt. The preferred stock carries an 8.5% annual dividend, payable quarterly at Insignia s option in cash or in kind, and is convertible into Insignia common stock at a price of $15.40 per share, subject to adjustment. The preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. In February 2000, Blackacre purchased $25.0 million of convertible preferred stock, which has now been exchanged for a Series A convertible preferred stock with an 8.5% annual dividend and a conversion price of $14.00 per share.

The Blackacre credit facility, which is subordinate to Insignia s senior credit facility, bears interest at an annual rate of 11.25% to 12.25%, payable quarterly, depending on the amount borrowed. In July 2002, Insignia borrowed $15.0 million under the credit facility. The proceeds were used to finance the purchase of the development property and related leasehold rights in St. Thomas, United States Virgin Islands (discussed under Real Estate Principal Investment Activities above). Insignia may draw down the remaining $22.5 million of availability at any time until December 2003. Any further borrowings will bear interest at 12.25%. The subordinated debt has a final maturity of June 2009.

13. Long-Term Debt

Total long-term debt consists of notes payable of the Company and real estate mortgage notes of consolidated real estate entities.

Notes Payable

At December 31, 2002, notes payable consisted of the following (in thousands):

Senior revolving credit facility with interest due quarterly at LIBOR plus 2.0 to 2.5% (totaling approximately 4.3%). Final payment due date is May 8, 2004	$ 95,000
Senior subordinated credit facility with interest due quarterly at 11.25% and a final maturity of June 2009	15,000
Acquisition loan notes with an interest rate of approximately 3.0% and a final maturity of April 2010	16,889
	$ 126,889

The Company s debt includes outstanding borrowings under its $230.0 million senior revolving credit facility and a $37.5 million subordinated credit facility entered into in June 2002 with Blackacre. The margin above LIBOR on the senior facility was 2.50% at December 31, 2002. The Company also had outstanding letters of credit of $11.0 million at December 31, 2002. At December 31, 2002 the unused commitment on the senior revolving credit facility was approximately $124.0 million.

The $37.5 million Blackacre credit facility is subordinate to Insignia s senior credit facility and bears interest, payable quarterly, at an annual rate of 11.25% to 12.25%, depending on the amount borrowed. At December 31, 2002, the Company had borrowings of $15.0 million outstanding on the subordinated credit facility at an interest rate of 11.25%. Any further borrowings bear interest at 12.25%. Insignia may draw down the remaining $22.5 million of availability at any time until December 2003. The subordinated debt has a final maturity of June 2009.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The senior credit facility provides for foreign denominated borrowings up to an aggregate $75 million. No foreign denominated borrowings were outstanding at December 31, 2002. The senior facility is collateralized by a pledge of the stock of domestic subsidiaries and material foreign subsidiaries.

The Company also maintains a £5 million line of credit in the UK for short term working capital purposes in Europe. The Company has not borrowed on this line of credit during the past two years.

The U.K. acquisition loan notes outstanding at December 31, 2002 are guaranteed by a bank, as required by the terms of the respective purchase agreements. The bank holds restricted cash deposits sufficient to repay the notes in full when due. These loan notes are redeemable semi-annually at the discretion of the note holder.

In March 2003, the Company repaid $67.0 million on the senior credit facility as a result of the sale of its residential businesses Insignia Douglas Elliman and Insignia Residential Group. In conjunction with the pay-down, the commitment under the senior credit facility was reduced from $230.0 million to $165.0 million.

The Company s credit agreements and other debt agreements contain various restrictive covenants requiring, among other things, minimum consolidated net worth and certain other financial ratios. The Company s revolving credit facility restricts the payment of cash dividends to an amount not to exceed twenty-five percent of net income for the immediately preceding fiscal quarter. At December 31, 2002, Insignia had approximately $80.0 million of availability on its credit facilities under these covenants. At December 31, 2002, the Company was in compliance with all covenants.

Real Estate Mortgage Notes

At December 31, 2002, real estate mortgage notes represented non-recourse loans collateralized by real estate properties and consisted of the following (in thousands):

Brookhaven Village, mortgage loan bearing interest at 6.24% with a final maturity in December 2004	$ 8,305
U.S. Virgin Islands development loan bearing interest at LIBOR plus 5.0% with a floor of 8.0% (8% at December 31, 2002). The note matures in August 2005	20,000
West Village, FHA loan bearing interest at 7.25%. The loan matures in October 2013	7,064
West Village, HPD note bearing interest at 8.5% and maturing in October 2023 (loan amount plus unpaid accrued interest)	29,897
West Village, non-interest bearing residual receipt note maturing in October 2023	1,529

	$ 66,795

The mortgage note encumbering Brookhaven Village includes a participation feature whereby the lender is entitled to 35% of the net cash flow, net refinancing proceeds or net sales proceeds after the Company has achieved a 10% annual return on equity. The projected participation liability to the lender equaled approximately $715,000 at December 31, 2002. This amount is substantially contingent upon a sale of the asset. The U.S. Virgin Island development loan includes a one time deferred financing fee of 4.35% to 17% of the loan proceeds, depending of the length of financing. This deferred financing fee is payable at loan maturity or the early repayment of the loan.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Scheduled principal maturities on all long-term debt payable after December 31, 2002 are as follows:

	Notes Payable	Real Estate Mortgage Notes	Total
		(In thousands)	
2003	$ 16,889	$ 412	$ 17,301
2004	95,000	8,786	103,786
2005		20,518	20,518
2006		556	556
2007		598	598
Thereafter	15,000	35,925	50,925
	$ 126,889	$ 66,795	$ 193,684

14. Stock Compensation Plans

The Company s 1998 Stock Incentive Plan, as amended and restated (the 1998 Plan), authorized the grant of options and restricted stock awards to management personnel totaling up to 4,500,000 shares of the Company s common stock. The term of each option is determined by the Company s Board of Directors but will in no event exceed ten years from the date of grant. Options granted typically have five-year terms and are granted at prices not less than 100% of the fair market value of the Company s common stock on the date of grant. The 1998 Plan may be terminated by the Board of Directors at any time. In September 1998, the Company was spun-off from its former parent, a company also named Insignia Financial Group, Inc. At the spin-off date, the Company assumed, under the 1998 Plan, approximately 1,787,000 options issued by the former parent to employees of the businesses included in the spin-off. At December 31, 2002, 1,926,583 options were outstanding under the 1998 Plan.

At December 31, 2002, approximately 96,000 unvested restricted stock awards to acquire shares of the Company s common stock were outstanding under the 1998 Plan. These awards, which have a five-year vesting period, were granted to executive officers and other employees of the Company. Compensation expense recognized by the Company for these awards totaled approximately $706,000 and $627,000 for 2002 and 2001, respectively.

During 2002, the Company granted 150,000 nonqualified options to the president of Insignia Douglas Elliman, pursuant to his employment agreement. These options were issued outside of the 1998 Plan and have a five-year vesting period.

The Company assumed 1,289,329 options under Non-Qualified Stock Option Agreements in connection with the acquisition of REGL. The options had five-year terms at the date of grant and the terms remained unchanged at the date of assumption. At December 31, 2002, 654,806 options remained outstanding.

The Company assumed approximately 612,000 options under Non-Qualified Stock Option Agreements in connection with the acquisition of St. Quintin. The options had five-year terms at the date of grant and the terms remained unchanged at the date of assumption. At December 31, 2002, 266,484 options remained outstanding.

The Company assumed 110,000 options under a Non-Qualified Stock Option Plan in connection with a prior acquisition. At December 31, 2002, 65,000 options remained outstanding under the plan. The options had five and one half-year terms at the date of grant and the terms remained unchanged at the date of assumption.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The terms of all options assumed in connection with acquisitions remained subject to continued vesting over their original terms. These options have been accounted for as additional purchase consideration for each respective business combination.

During 2000, Insignia granted 1,493,000 warrants to purchase Insignia common stock to certain key executives, non-employee directors and other employees under Warrant Agreements. Such warrants had five-year terms at the date of grant. At December 31, 2002, 1,432,500 warrants remained outstanding.

Pursuant to the Company s Supplemental Stock Purchase and Loan Program, Insignia has loans outstanding to seven employees, including three executive officers, of the Company. These loans were originally made in 1998 and 1999 for the purchase of 158,663 newly issued shares of Insignia s common stock at an average share price of approximately $12.18. The loans require principal and interest payments, at a fixed rate of 7.5%, in 40 equal quarterly installments ending December 31, 2009. The notes are secured by the common shares and are non-recourse to the employee except to the extent of 25% of the outstanding amount. The outstanding principal balances of these notes totaled $1,193,000 at December 31, 2002. The notes receivable are classified as a reduction of stockholders equity in the Company s consolidated balance sheet.

The Company s 1998 Employee Stock Purchase Plan (the Employee Plan) was adopted to provide employees with an opportunity to purchase common stock through payroll deductions at a price not less than 85% of the fair market value of the Company s common stock. The Employee Plan was developed to qualify under Section 423 of the Internal Revenue Code of 1986.

In connection with the Company s spin-off in September 1998, 1,196,000 warrants to purchase shares of common stock of the Company (at $14.50 per share) were issued to holders of the Convertible Preferred Securities of the Company s former parent. The term of each warrant is five years. The Company s former parent purchased the warrants from Insignia in 1998 for approximately $8.5 million. At December 31, 2002, all warrants remained outstanding and were fully exercisable.

The Company s common stock reserved for future issuance in connection with stock compensation plans totaled 5,751,373 shares at December 31, 2002.

Summaries of the Company s stock option, warrant and unvested restricted stock activity, and related information for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
	Shares	**Weighted Average**	**Shares**	**Weighted Average**

		Exercise Price		Exercise Price
Outstanding at beginning of year	6,616,404	$ 10.32	8,304,155	$ 10.06
Options and warrants granted	290,000	10.33	30,000	11.70
Options granted in connection with a prior acquisition			20,000	10.80
Exercised	(200,674)	3.48	(690,941)	6.64
Forfeited/canceled	(954,357)	11.95	(1,046,810)	9.40
Outstanding at end of year	5,751,373	10.30	6,616,404	$ 10.32
Exercisable at end of year	4,501,359	$ 10.66	4,233,299	$ 11.31
Weighted-average fair value of grants during the year		$ 2.90		$ 5.32

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant option, warrant and unvested restricted stock groups outstanding at December 31, 2002 and related weighted average price and life information follows:

Outstanding				Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00 - $7.50	1,017,526	1.9 years	$5.82	560,066	$6.41
$7.51 - $11.00	2,108,000	2.5 years	$8.40	1,723,330	$8.06
$11.01 - $14.00	1,308,965	1.7 years	$12.61	901,081	$12.65
$14.01 - $15.69	1,316,882	0.8 years	$14.51	1,316,882	$14.51
	5,751,373		$10.30	4,501,359	$10.66

15. Income Taxes

For financial reporting purposes, income (loss) from continuing operations before income taxes includes the following components:

	2002	2001
	(In thousands)	
United States	$ (3,583)	$ 4,200
Foreign	19,632	5,674
	$ 16,049	$ 9,874

Significant components of the income tax expense from continuing operations are as follows:

	2002	2001

	(In thousands)	
Current:		
Federal	$ (324)	$ 1,080
Foreign	8,279	4,868
State and local	(299)	328
Total current	7,656	6,276
Deferred:		
Federal	2,053	(1,662)
Foreign	960	(944)
State and local	(3,657)	(148)
Total deferred	(644)	(2,754)
	$ 7,012	$ 3,522

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Components of income tax expense (benefit) reported other than in continuing operations are as follows:

	2002	2001
	(In thousands)	
Discontinued Operations:		
Income (loss) from operations	$ 3,707	$ (1,123)
Income (loss) on disposal	(2,844)	(4,000)
Total	863	(5,123)
Accumulated Other Comprehensive Income:		
Minimum pension liability	(3,832)	(696)
Unrealized investment gains	752	7
Currency translation	6,215	(1,769)
Total	3,135	(2,458)
Cumulative Change in Accounting Principles:		
Goodwill impairment	(9,388)	

The reconciliation of income tax attributable to continuing operations computed at the U.S. statutory rate to income tax expense is shown below *(In thousands)*:

	2002		2001	
	Amount	Percent	Amount	Percent
Tax at U.S. statutory rates	$ 5,617	35.0%	$ 3,456	35.0%
Effect of different tax rates in foreign jurisdictions	(387)	(2.4)	(424)	(4.3)
State income taxes, net of federal tax benefit	(2,571)	(16.0)	(1,521)	(15.4)
Effect of nondeductible meals and entertainment expenses	479	3.0	1,075	10.9
Effect of nondeductible goodwill amortization			1,386	14.0
Change in valuation allowances for continuing operations	1,913	11.9	1,468	14.9
Effect of settlement of IRS exam	(73)	(0.4)	(1,961)	(19.9)
Effect of executive compensation limitation	1,504	9.3	351	3.6
Other	530	3.3	(308)	(3.1)
	$ 7,012	43.7%	$ 3,522	35.7%

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax liabilities and assets as of December 31, 2002 are as follows (in thousands):

Deferred tax liabilities:	
Acquisition related intangibles	$ (1,799)
Tax over book depreciation	(6,149)
Partnership earnings differences	
Compensation	(5,415)
Accumulated comprehensive income unrealized gains	(752)
Other, net	(1,680)
Total deferred tax liabilities	(15,795)
Deferred tax assets:	
Net operating losses	13,494
Acquisition related items	4,082
Book over tax depreciation	
Commission income receivable (net)	1,499
Alternative minimum tax credit	1,234
Partnership earnings differences	3,897
Bad debt reserves	2,400
Reserve for asset impairments	2,540
Compensation and benefits	17,261
Accumulated comprehensive income minimum pension liability	4,528
Accumulated comprehensive income currency translation	
Other, net	2,250
Total deferred tax assets	53,185
Valuation allowance for deferred tax assets	(5,576)
Deferred tax assets, net of valuation allowance	47,609
Net deferred tax assets	$ 31,814

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to realize fully the deferred assets, the Company will need to generate future taxable income of approximately $58.1 million, principally for U.S. purposes.

The Company has generated losses and has created other net deferred assets in prior years. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future income during the carryforward period are reduced. Net operating losses in the U.S. were carried forward from 2001 for federal income tax purposes. At December 31, 2002, approximately $12.6 million and $41.1 million of net operating losses will carry forward to 2003 for federal, state and local income tax purposes respectively. These amounts expire between 2015 and 2022.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In 2001, the Company entered into an agreement to sell Realty One and its affiliated companies. In connection with the Realty One sale, the Company incurred a pre-tax loss of approximately $21.6 million. Under the tax law existing at December 31, 2001, approximately $12.5 million of the loss could not be deducted for income tax purposes and no income tax benefit has been provided on this portion of the loss in 2001. Subsequent to 2001, the U.S. Treasury Department issued new legislative regulations that allowed for the deduction of the loss for income tax purposes. Sufficient capital gains were generated to offset the loss.

Undistributed earnings of the Company s foreign operations amounted to approximately $39.0 million in aggregate as of December 31, 2002. Deferred income taxes are not provided at U.S. tax rates on these earnings as it is intended that the earnings will be permanently reinvested outside of the U.S. Any such taxes should not be significant, since U.S. tax rates are no more than 5% in excess of U.K. and French tax rates and goodwill, with respect to the U.K. and French operations, are amortizable for U.S. tax purposes.

During 2002, certain of the Company s foreign operations generated operating losses in aggregate of approximately $8.1 million. All potential tax benefits pertaining to such losses have been fully reserved due to absence of profits.

In 2000, the Internal Revenue Service (IRS) commenced an examination of the income tax returns for the 1998 (January 1, 1998 through September 30, 1998), 1997 and 1996 tax years. In November 2001, the IRS made a final determination to which the Company agreed. The agreed assessment paid by the Company was approximately $1.1 million, including taxes and interest. The examination will have final resolution when the U. S. Treasury Department issues a determination letter resulting from the review by the Joint Committee on Taxation. The statute of limitations expired on March 31, 2003 and the Company does not anticipate any additional assessments.

16. Employee Benefit Plans

401(k) Retirement Plan

The Company established a 401(k) savings plan covering substantially all U.S. employees. The Company may make a contribution equal to 25% of the employees contribution up to a maximum of 6% of the employees compensation and participants fully vest in employer contributions after 5 years. All contributions to the 401(k) plan are expensed currently in earnings. The Company expensed approximately $1,026,000 and $1,201,000 in contributions to the 401(k) plan during 2002 and 2001, respectively.

Defined Contribution Plan

Insignia Richard Ellis maintains a defined contribution plan that is available to all of its employees at their option after the completion of six months of service and the attainment of 25 years of age. Insignia Richard Ellis contributions are 3.5% of salary for ages 25 to 30, 4.5% of salary for ages 31 to 35 and 5.5% to 7% of salary for ages 36 and over. Insignia Richard Ellis expensed approximately $1,598,000 and $1,430,000 in contributions to the plan during 2002 and 2001, respectively.

Defined Benefit Plans

Insignia Richard Ellis maintains two defined benefit plans for certain of its employees. The plans provide for benefits based upon the final salary of participating employees. The funding policy is to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes the accumulated benefit obligation, projected benefit obligation, funded status and net periodic pension cost of the Insignia Richard Ellis defined benefit plans as of December 31, 2002 (in thousands):

Accumulated Benefit Obligation	$ 57,089
Projected Benefit Obligation (PBO)	
PBO Beginning of year	$ 48,355
Service cost	1,158
Interest cost	3,017
Benefits paid net of participant contributions	(566)
Net actuarial loss	4,023
Foreign currency exchange rate changes	5,593
PBO End of year	61,580
Change in Plan Assets	
Fair value of plan assets at beginning of year	44,131
Actual return on plan assets	(6,198)
Employer contributions	884
Benefits paid net of participant contributions	(566)
Foreign currency exchange rate changes	4,267
Fair value of plan assets at end of year	42,518
Funded status of the plans	(19,062)
Unrecognized net actuarial loss	19,585
Adjustment required to recognize minimum liability	(15,094)
Net pension liability recognized in the Company s consolidated balance sheets	$ (14,571)

	Years Ended December 31	
	2002	2001
	(In thousands)	
Net Periodic Pension Cost		
Service cost	$ 1,158	$ 909
Interest cost	3,017	2,657
Return on plan assets	(2,975)	(3,398)

	$ 1,200	$ 168
Assumptions used in determining accounting:		
Discount rate	5.5%	6.0%
Weighted average increase in compensation levels	4.3%	4.5%
Rate of return on plan assets	6.5%	6.5%

The adjustment to accumulated other comprehensive income in 2002 pertaining to the minimum pension liability was approximately $9.7 million (net of tax benefit of $3.8 million).

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Related Party Transactions

In May 2002, Insignia made a loan in the amount of $270,000 to an Executive Vice President of the Company. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. Interest on the loan is payable to Insignia in cash on June 30 and December 31 of each year; provided, however, that until December 31, 2004 all interest accrued and payable may, at the discretion of the executive (but subject to Insignia s right of offset as more fully described below), be added to the outstanding principal balance of the loan instead of paid in cash. The loan is repayable on the earlier of (i) June 30, 2005 or (ii) 30 days following a termination of the executive s employment with Insignia for any reason. Pursuant to its rights under the note, beginning on August 1, 2002, Insignia began withholding 50% of any distribution payable to the executive, in respect of the executive s equity interest in the Company s profits interest in IOP, to be applied as a payment of accrued interest first and then outstanding principal. The outstanding balance on the loan was $269,083 at December 31, 2002.

In March 2002, Insignia made a loan in the amount of $1.5 million to its Chairman and Chief Executive Officer. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. The loan is payable on or before March 5, 2005. The Company deducts quarterly interest payments due on the loan from certain bonuses payable to the Chairman. To the extent such bonuses are not paid, all accrued and unpaid interest is payable at maturity. The loan and any accrued interest thereon would be forgiven in limited circumstances, such as a significant transaction or change of control. The outstanding balance on the loan at December 31, 2002 was $1.5 million.

In June 2001, Insignia made a loan in the amount of $1.5 million to its President. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.25% at December 31, 2002. The loan becomes due upon the earliest of (i) voluntary termination of the President s employment with Insignia, (ii) the termination of the President s employment with Insignia for cause or (iii) March 15, 2006. Insignia will forgive $375,000 of the principal amount of the loan and accrued interest thereon on March 15 of the year following each of 2002, 2003, 2004 and 2005 to the extent that actual Net EBITDA equals or exceeds 75% of annual budgeted Net EBITDA for any such year, as approved by the Board of Directors. In addition, if aggregate actual Net EBITDA for fiscal 2002, 2003, 2004 and 2005 equals or exceeds aggregate annual budgeted EBITDA for such years, any outstanding principal amount of the loan and accrued interest thereon, will be forgiven as of March 15, 2006. The outstanding balance on the loan at December 31, 2002 was $1.5 million.

Pursuant to the Company s Supplemental Stock Purchase and Loan Program, Insignia has loans outstanding to seven employees, including three executive officers, of the Company. These loans were originally made in 1998 and 1999 for the purchase of 158,663 newly issued shares of Insignia s common stock at an average share price of approximately $12.18. The loans require principal and interest payments, at a fixed rate of 7.5%, in 40 equal quarterly installments ending December 31, 2009. The notes are secured by the common shares and are non-recourse to the employee except to the extent of 25% of the outstanding amount. At December 31, 2002, the loans outstanding totaled $1,193,000 and are presented as a reduction of stockholders equity in the Company s consolidated balance sheet.

A director of Insignia is a partner in a law firm that represents Insignia or certain of its affiliates from time to time. The amount of fees paid by the Company to the firm during 2002 and 2001 totaled $1,363,000 and $59,000, respectively.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Commitments, Contingencies and Other Matters

Ordinary Course of Business Claims

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies including unasserted claims or assessments, which are probable and for which the amount of loss can be reasonably estimated, are accrued in accordance with SFAS No. 5, *Accounting for Contingencies*.

Indemnification

In 1998, the Company s former parent entered into a Merger Agreement with Apartment Investment and Management Company (AIMCO), and one of AIMCO s subsidiaries, pursuant to which the former parent was merged into AIMCO. Shortly before the merger, the former parent distributed the stock of Insignia to its shareholders in a spin-off transaction. As a requirement of the Merger Agreement, Insignia entered into an Indemnification Agreement with AIMCO. In the Indemnification Agreement, Insignia agreed generally to indemnify AIMCO against all losses exceeding $9.1 million that result from: (i) breaches by the Company or former parent of representations, warranties or covenants in the Merger Agreement; (ii) actions taken by or on behalf of former parent prior to the merger; and (iii) the spin-off.

In December 2001, the Company entered into a stock purchase agreement with Real Living, Inc., the purchaser, that provided for the sale of 100% of the stock of Realty One and its affiliated companies. Such affiliated companies included First Ohio Mortgage Corporation, Inc., First Ohio Escrow Corporation, Inc. and Insignia Relocation Management, Inc. As a part of the sale, the Company agreed generally to indemnify the purchaser against all losses up to the purchase price (subject to certain deductible amounts), resulting from the following: (i) breaches by the Company of any representations, warranties or covenants in the stock purchase agreement; (ii) pre-disposition obligations for goods, services, taxes or indebtedness except for those assumed by Real Living, Inc.; (iii) change of control payments made to employees of Realty One; and (iv) any third party losses arising or related to the period prior to the disposition. In addition, the Company provided an indemnification for losses incurred by Wells Fargo Home Mortgage, Inc. (Wells Fargo) and/or the purchaser in respect of (i) mortgage loan files existing on the date of closing; (ii) fraud in the conduct of its home mortgage business; and (iii) the failure to follow standard industry practices in the home mortgage business. The aggregate loss for which the Company is potentially liable to Wells Fargo is limited to $10 million and the aggregate of any claims made by the purchaser and Wells Fargo shall not exceed the purchase price.

In March 2003, Insignia completed the sale of its New York-based residential real estate service businesses, Insignia Douglas Elliman and Insignia Residential Group, to Montauk Battery Realty, LLC. In connection with the sale, Insignia agreed generally to indemnify the purchaser for the amount of any loss, liability, claim, damage, cost or expense up to the aggregate purchase price (subject to certain deductible amounts) arising, directly or indirectly, from or in connection with the following: (i) breaches by the Company of any representations, warranties, covenants or obligations in the purchase and sale agreement; (ii) claims pending or threatened on the date of sale; (iii) any conduct, action or

inaction or circumstances related to the operation, management or ownership of the businesses arising or related to the period prior to the sale; and (iv) any liabilities or obligations arising or related to the period prior to the sale.

As of December 31, 2002, the Company was not aware of any matters that would give rise to a material claim under any indemnities and warranties.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Environmental

Under various federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate certain hazardous or toxic substances or petroleum-product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from or at the site, including the presence of asbestos containing materials. Insurance for such matters may not be available.

The presence of contamination or the failure to remediate contamination may adversely affect the owner s ability to sell or lease real estate or to borrow using the real estate as collateral. There can be no assurance that Insignia, or any assets owned or controlled by Insignia (as on-site property manager), currently are in compliance with all of such laws and regulations or that Insignia will not become subject to liabilities that arise in whole or in part out of any such laws, rules or regulations. The liability may be imposed even if the original actions were legal and Insignia did not know of, or was not responsible for, the presence of such hazardous or toxic substances. Insignia may also be solely responsible for the entire payment of any liability if it is subject to joint and several liability with other responsible parties who are unable to pay. Insignia may be subject to additional liability if it fails to disclose environmental issues to a buyer or lessee of property. Management is not currently aware of any environmental liabilities that are expected to have a material adverse effect upon the operations or financial condition of the Company.

Operating Leases

The Company leases office space and equipment under noncancelable operating leases. Minimum annual rentals under operating leases for the five years ending after December 31, 2002 and thereafter are as follows (in thousands):

2003	$ 27,276
2004	25,878
2005	24,105
2006	22,306
2007	20,829
Thereafter	64,638
Total minimum payments	$ 185,032

Rental expense, which is recorded on a straight-line basis, was approximately $29,705,000 (2002) and $24,496,000 (2001). Certain of the leases are subject to renewal options and annual escalation based on the Consumer Price Index or annual increases in operating expenses.

Convertible Preferred Stock

Insignia has 375,000 shares, or $37.5 million, of convertible preferred stock outstanding to investment funds affiliated with Blackacre Capital Management. The convertible preferred stock includes 250,000 shares, or $25.0 million, of Series A, initially purchased in February 2000, and 125,000 shares, or $12.5 million, of Series B purchased in June 2002. The initial preferred originally carried a 4% annual dividend and was exchanged in June 2002 for Series A convertible preferred stock. The convertible preferred stock carries an 8.5% annual dividend (totaling approximately $3.2 million), payable quarterly at Insignia s option in cash or in kind. The Company paid cash dividends of approximately $1.8 million in 2002.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The convertible preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. Upon the dissolution, liquidation or winding up of the Company, the holders of Series A and Series B convertible preferred stock are entitled to receive the stated value of $100.00 per share (totaling $37.5 million) plus accrued and unpaid dividends.

Stock Repurchase

At December 31, 2002, Insignia held in treasury 1,502,600 repurchased shares of its Common Stock. Such shares were repurchased at an aggregate cost of approximately $16.2 million and are reserved for issuance upon the exercise of warrants granted in 2001 to certain executive officers, non-employee directors and other employees of the Company.

In July 2002, the Company authorized a stock repurchase program of up to $5.0 million, subject to compliance with all covenants contained within the Company s existing debt agreements. As of December 31, 2002, the Company had not initiated any stock repurchases under this authorization.

19. Industry Segments

As of December 31 2002, Insignia s operating activities encompassed two segments that include (i) commercial real estate services, including principal investment activities, and (ii) residential real estate services. The Company s New York-based residential real estate service businesses were sold in March 2003; therefore, operating activities from continuing operations exclude the operations of these businesses. Residential operations are reported as discontinued operations in the Company s consolidated statements of operations. In 2001, the Company s operating activities included internet-based initiatives as a segment. The Company s segments include businesses that offer similar products and services and are managed separately because of the distinction between such services. The accounting policies of the segments are the same as those used in the preparation of the consolidated financial statements.

The commercial segment provides services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other services. The commercial segment also includes the Company s principal real estate investment activities and fund management. Insignia s commercial segment is comprised of the operations of Insignia/ESG in the U.S., Insignia Richard Ellis in the U.K., Insignia Bourdais in France and other businesses in continental Europe, Asia and Latin America. The Company s unallocated administrative expenses and corporate assets, consisting primarily of cash and property and equipment, are included in Other in the segment reporting. The Company s internet-based initiatives launched in 1999 were terminated in 2001.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables summarize certain financial information by industry segment.

Year ended December 31, 2002	Commercial	Residential	Other	Total
		(In thousands)		
Revenues				
Real estate services	$ 577,544	$	$	$ 577,544
Property operations	9,195			9,195
Equity earnings in unconsolidated ventures	3,482			3,482
Other income, net	589		204	793
	590,810		204	591,014
Operating income (loss)	37,318		(14,229)	23,089
Other income and expense:				
Interest income	2,300		1,636	3,936
Interest expense	(474)		(8,380)	(8,854)
Property interest expense	(2,122)			(2,122)
Income (loss) from continuing operations before income taxes	$ 37,022	$	$ (20,973)	$ 16,049
Total assets	$ 724,330	$ 62,604	$ 85,905	$ 872,839
Real estate investments, net	134,135			134,135
Capital expenditures, net	8,388			8,388

Year ended December 31, 2001	Commercial	Residential	Internet	Other	Total
Revenues					
Real estate services	$ 613,253	$	$	$	$ 613,253
Property operations	3,969				3,969
Equity earnings in unconsolidated ventures	13,911				13,911
Other income, net	1,765			331	2,096
	632,898			331	633,229
Operating income (loss)	43,244			(13,186)	30,058
Other income and expenses:					
Interest income	2,084			2,769	4,853
Interest expense	(639)			(11,730)	(12,369)
Property interest expense	(1,744)				(1,744)
Losses from internet investments			(10,263)		(10,263)

Other expenses	(661)				(661)
Income (loss) from continuing operations before income taxes	$ 42,284	$	$ (10,263)	$ (22,147)	$ 9,874
Total assets	$ 678,091	$ 147,654	$ 1,007	$ 91,630	$ 918,382
Real estate investments, net	95,710				95,710
Capital expenditures, net	11,704			85	11,789

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Certain geographic information is as follows:

	Year ended December 31, 2002		Year ended December 31, 2001	
	Revenues	**Long-Lived Assets**	**Revenues**	**Long-Lived Assets**
United States	$ 406,198	$ 343,072	$ 512,754	$ 339,619
United Kingdom	121,746	115,029	105,896	106,701
France	43,058	30,189		12,800
Other countries	20,012	8,631	14,579	8,603
	$ 591,014	$ 496,921	$ 633,229	$ 467,723

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangibles.

20. Fair Values of Financial Instruments

The fair value estimates of financial instruments are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. The carrying amount reported on the balance sheet for cash and cash equivalents approximates its fair value. Receivables reported on the balance sheet generally consist of property and lease commission receivables and various note receivables. The property and note receivables approximate their fair values. Lease commission receivables are carried at their discounted present value; therefore the carrying amount and fair value amount are the same. The carrying amounts for notes payable and real estate mortgage notes payable approximate their respective fair value because the interest rates generally approximate current market interest rates for similar instruments.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Quarterly Financial Data (unaudited)

	2002				
	Total	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)				
Revenues	$ 591,014	$ 172,332	$ 155,414	$ 139,225	$ 124,043
Income (loss) from continuing operations	9,037	6,254	2,779	905	(901)
Discontinued operations	9,098	80	5,990	2,270	758
Income (loss) before cumulative effect of a change in accounting principle	18,135	6,334	8,769	3,175	(143)
Cumulative effect of a change in accounting principle	(20,635)				(20,635)
Net (loss) income	$ (2,500)	$ 6,334	$ 8,769	$ 3,175	$ (20,778)
Per share amounts:					
Earnings per share basic					
Income (loss) from continuing operations	$ 0.30	$ 0.23	$ 0.09	$ 0.03	$ (0.05)
Discontinued operations	0.39	0.01	0.25	0.09	0.03
Income (loss) before cumulative effect of a change in accounting principle	0.69	0.24	0.34	0.12	(0.02)
Cumulative effect of a change in accounting change in accounting principle	(0.89)				(0.90)
Net (loss) income	(0.20)	$ 0.24	0.34	0.12	(0.92)
Earnings per share assuming dilution					
Income (loss) from continuing operations	0.29	0.23	0.09	0.03	(0.05)
Discontinued operations	0.38	0.01	0.25	0.09	0.03
Income (loss) before cumulative effect of a change in accounting principle	0.67	0.24	0.34	0.12	(0.02)
Cumulative effect of a change in accounting principle	(0.87)				(0.90)
Net (loss) income	$ (0.20)	$ 0.24	$ 0.34	$ 0.12	$ (0.92)

INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2001				
	Total	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)				
Revenues	$ 633,229	$ 228,981	$ 115,949	$ 140,747	$ 147,552
Income (loss) from continuing operations	6,352	13,534	(5,561)	(1,821)	200
Discontinued operations	(19,860)	(18,593)	1,091	376	(2,734)
Net loss	$ (13,508)	$ (5,059)	$ (4,470)	$ (1,445)	$ (2,534)
Per share amounts:					
Earnings per share basic					
Income (loss) from continuing operations	$ 0.24	$ 0.59	$ (0.26)	$ (0.09)	$ 0.00
Discontinued operations	(0.90)	(0.83)	0.05	0.01	(0.13)
Net loss	(0.66)	(0.24)	(0.21)	(0.08)	(0.13)
Earnings per share assuming dilution					
Income (loss) from continuing operations	0.23	0.50	(0.26)	(0.09)	0.00
Discontinued operations	(0.85)	(0.70)	0.05	0.01	(0.13)
Net loss	$ (0.62)	$ (0.20)	$ (0.21)	$ (0.08)	$ (0.13)

Fourth quarter earnings included a gain of approximately $10.4 million from the sale of a real estate property in which the Company held a 17.5% profits interest. In addition, the fourth quarter included impairment write-downs of $4.6 million in remaining internet investments and income of $3.2 million in connection with the liquidation of EdificeRex.

22. Subsequent Events

CB Richard Ellis Merger

On February 17, 2003, Insignia entered into an Agreement and Plan of Merger (the Merger Agreement) with CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. (CB) and Apple Acquisition Corp., a wholly owned subsidiary of CB, pursuant to which, upon the terms and subject to the conditions set forth therein, Apple Acquisition Corp. will be merged with and into Insignia (the Merger), with Insignia being the surviving corporation in the Merger and becoming a wholly owned subsidiary of CB. The Merger Agreement provides that Insignia s Certificate of

Incorporation and the Bylaws of Apple Acquisition Corp. will be the Certificate of Incorporation and the Bylaws, respectively, of the surviving corporation. Under the Merger Agreement, at closing each share of common stock, par value $0.01 per share, of Insignia (the Common Stock) will be converted into the right to receive $11.00 per share in cash (the Common Merger Consideration), subject to adjustment based on the potential sale of certain real estate assets (excluding assets of the service businesses) prior to the closing of the Merger. The Merger Agreement provides that if Insignia receives more than a specified amount of cash net proceeds for these assets, the excess net cash proceeds will be paid to holders of Common Stock, options, warrants and unvested restricted stock as additional Common Merger Consideration, up to an additional $1.00 per share of Common Stock. The Merger closed on July 23, 2003 and Insignia s common shareholders received cash consideration of $11.156 per share.

Separately, on July 23, 2003, Insignia sold substantially all of its real estate investment assets to Island Fund I LLC prior to the closing of the Merger. The purchase price in the sale aggregated $44.8 million and included $36.9 million paid in cash to Insignia at closing and the assumption by the buyer of $7.9 million in contractual

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

obligations to certain executive officers, including the Company s Chairman, who are also officers of Island Fund. The Company recognized a loss of approximately $12.8 million (before applicable income taxes) in connection with the sale.

When Insignia entered into the Merger Agreement it considered whether the right to sell certain of its real estate investment assets had any effect on the evaluation of such investments for purposes of determining impairment and discontinuance for financial reporting purposes. Insignia concluded that the investment assets did not qualify for classification as assets held for sale based on the following factors: (i) management had not committed to a formal plan to sell the asset (or disposal group); (ii) an active program to locate a buyer and other actions required to complete the sell the assets had not been initiated; (ii) the sale of any investment assets below book value was not considered probable; and (iv) the Company would not sell assets below book value unless the merger closed and such sales produced additional incremental share consideration above $11.00 per share.

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Supplemental Information

The following supplemental information includes: (i) condensed consolidating balance sheet as of December 31, 2002; (ii) condensed consolidating statement of operations for the year ended December 31, 2002 and (iii) condensed consolidating statement of cash flows for the year ended December 31, 2002 of the Company s domestic commercial service operations (including operations of Insignia/ESG, Inc. and unallocated administrative expenses and corporate assets of Insignia), all other operations (comprised of residential service operations, international service operations and real estate investment operations) and the Company on a consolidated basis. 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.

Condensed Consolidating Balance Sheet

As of December 31, 2002

	Domestic Commercial Service Operations	Other Operations	Eliminations	Consolidated Total
		(In thousands)		
Assets				
Cash and cash equivalents	$ 72,245	$ 39,268	$	$ 111,513
Receivables, net of allowance	103,780	51,541		155,321
Restricted cash	17,277	4,241		21,518
Intercompany receivables	44,196		(44,196)	
Investment in consolidated subsidiaries	246,184		(246,184)	
Property and equipment, net	36,271	19,343		55,614
Real estate investments, net		134,135		134,135
Goodwill, net	112,662	176,899		289,561
Acquired intangible assets, net	1,345	16,266		17,611
Deferred taxes	42,805	4,804		47,609
Other assets, net	26,922	13,035		39,957
Total assets	$ 703,687	$ 459,532	$ (290,380)	$ 872,839
Liabilities and Stockholders Equity				
Liabilities:				
Accounts payable	$ 5,510	$ 8,233	$	$ 13,743
Commissions payable	63,380	594		63,974
Accrued incentives	23,720	28,604		52,324
Accrued and sundry	54,560	63,430		117,990
Deferred taxes	14,299	1,496		15,795

Intercompany payables		44,196	(44,196)	
Notes payable	126,889			126,889
Real estate mortgage notes		66,795		66,795
Total liabilities	288,358	213,348	(44,196)	457,510
Total stockholders equity	415,329	246,184	(246,184)	415,329
Total liabilities and stockholders equity	$ 703,687	$ 459,532	$ (290,380)	$ 872,839

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Operations

For the Year Ended December 31, 2002

	Domestic Commercial Service Operations	Other Operations	Eliminations	Consolidated Total
		(In thousands)		
Revenues	$ 392,935	$ 198,079	$	$ 591,014
Costs and expenses				
Real estate services	366,904	159,172		526,076
Property operations		7,264		7,264
Administrative	14,344			14,344
Depreciation and amortization	14,292	4,029		18,321
Property depreciation		1,920		1,920
	395,540	172,385		567,925
Operating income (loss)	(2,605)	25,694		23,089
Other income and expenses:				
Interest income	1,678	2,258		3,936
Interest expense	(8,380)	(474)		(8,854)
Property interest expense		(2,122)		(2,122)
Equity earnings in consolidated subsidiaries	2,438		(2,438)	
Income (loss) from continuing operations before income taxes	(6,869)	25,356	(2,438)	16,049
Income tax (expense) benefit	4,369	(11,381)		(7,012)
Income (loss) from continuing operations	(2,500)	13,975	(2,438)	9,037
Discontinued operations, net of applicable tax				
Income from operations		4,180		4,180
Income on disposal		4,918		4,918
Income (loss) before cumulative effect of a change in accounting principle	(2,500)	23,073	(2,438)	18,135
Cumulative effect of a change in accounting principle, net of applicable taxes		(20,635)		(20,635)
Net loss	$ (2,500)	$ 2,438	$ (2,438)	$ (2,500)

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INSIGNIA FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2002

	Domestic Commercial Service Operations	Other Operations	Consolidated Total
		(In thousands)	
Cash (used in) provided by operating activities	$ (52,231)	$ 53,913	$ 1,682
Investing activities			
Additions to property and equipment, net	(6,315)	(2,073)	(8,388)
Proceeds from real estate investments		44,648	44,648
Proceeds from sale of discontinued operation		23,250	23,250
Payments made for acquisition of businesses	(3,650)	(5,268)	(8,918)
Investment in real estate		(46,684)	(46,684)
Decrease (increase) in restricted cash	5,496	(1,532)	3,964
Cash (used in) provided by investing activities	(4,469)	12,341	7,872
Financing activities			
Decrease (increase) in intercompany receivables	56,173	(56,173)	
Proceeds from issuance of common stock	903		903
Proceeds from issuance of preferred stock	12,270		12,270
Proceeds from exercise of stock options	674		674
Preferred stock dividends	(1,829)		(1,829)
Payments on notes payable	(59,785)		(59,785)
Proceeds from notes payable	15,000		15,000
Payments on real estate mortgage notes		(28,361)	(28,361)
Proceeds from real estate mortgage notes		20,000	20,000
Debt issuance costs	(1,415)		(1,415)
Cash provided by (used in) financing activities	21,991	(64,534)	(42,543)
Net cash provided by discontinued operations		8,787	8,787
Effect of exchange rate changes in cash		3,789	3,789
Net (decrease) increase in cash and cash equivalents	(34,709)	14,296	(20,413)
Cash and cash equivalents at beginning of year	106,954	24,906	131,860
	72,245	39,202	111,447
Cash of discontinued operations		66	66

Cash and cash equivalents at end of year	$ 72,245	$ 39,268	$ 111,513
Supplemental Information:			
Cash paid for interest	$ 7,238	$ 1,718	$ 8,956
Cash paid for income taxes	2,784	6,743	9,527

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the fees and expenses in connection with the issuance and distribution for the securities being registered hereunder, which fees and expenses will be borne solely by the registrant. Except for the Securities and Exchange Commission registration fee and the NASD fee, all amounts are estimates.

Description	Amount
Securities and Exchange Commission registration fee	$ 76,933
NASD filing fee	30,500
The New York Stock Exchange listing fee	151,100
Legal fees and expenses	900,000
Accounting fees and expenses	500,000
Printing and engraving fees and expenses	500,000
Blue Sky fees and expenses	5,000
Transfer agent fees and expenses	25,000
Miscellaneous expenses	111,467
Total	$ 2,300,000

Item 14. Indemnification of Directors and Officers.

Section 102 of the Delaware General Corporation Law, or the DGCL, as amended, allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damage for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of such corporation) by reason of the fact that the person is or was a director, officer, agent or employee of such corporation or is or was serving at our request as a director, officer, agent, or employee of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys fees, judgment, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding. The power to indemnify applies (1) if the person is successful on the merits or otherwise in defense of any action, suit or proceeding or (2) if the person acted in good faith and in a manner he reasonably believed to be in the best interest, or not opposed to the best interest, of the Delaware corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the Delaware corporation as well, but only to the extent of defense expenses (including attorneys fees but excluding amounts paid in settlement) actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in these actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of his duties to the Delaware corporation, unless the court believes that in light of all the circumstances indemnification should apply.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for these actions. A director who was either absent when the unlawful actions were approved or dissented at the

time, may avoid liability by causing his or her dissent to these actions to be entered in the books containing the minutes of the meetings of the board of directors at the time the action occurred or immediately after the absent director receives notice of the unlawful acts.

Our restated certificate of incorporation includes a provision that limits the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation is not permitted under the Delaware General Corporation Law.

Our restated certificate of incorporation provides that we must indemnify our current or former directors and officers to the fullest extent permitted by Delaware law. Our restated certificate of incorporation provides that each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding (brought in the right of CB Richard Ellis Group or otherwise), whether civil, criminal, administrative or investigative, and whether formal or informal, including appeals, by reason of the fact that such person is or was a director or officer of CB Richard Ellis Group or, while a director or officer, is or was serving at the request of CB Richard Ellis Group as a director, officer, partner, member, fiduciary, trustee, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, must be indemnified and held harmless by CB Richard Ellis Group to the fullest extent permitted by Delaware law. Our restated certificate of incorporation also provides that each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (brought in the right of CB Richard Ellis Group or otherwise), whether civil, criminal, administrative or investigative, and whether formal or informal, including appeals, by reason of the fact that such person is or was an employee or agent of CB Richard Ellis Group or, while an employee or agent, is or was serving at the request of CB Richard Ellis Group as a director, officer, partner, member, fiduciary, trustee, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, may be indemnified and held harmless by CB Richard Ellis Group to the fullest extent permitted by Delaware law.

Our restated certificate of incorporation provides that we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by Delaware law.

In addition, we maintain insurance on behalf of our directors and executive officers insuring them against any liability asserted against them in their capacities as directors or officers or arising out of this status.

We must indemnify and hold harmless (1) each holder of our common stock and the warrants to acquire our common stock (and the shares of common stock received upon exercise of the warrants) acquired by the persons defined as Securityholders pursuant to the Securityholders Agreement, dated as of July 20, 2001, by and among, CB Richard Ellis Group, CB Richard Ellis Services, Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG, FS Equity Partners III, L.P., FS Equity Partners International, L.P., Credit Suisse First Boston Corporation, DLJ Investment Funding, Inc., The Koll Holding Company, Frederic V. Malek, the management investors named therein and the other persons from time to time party thereto and each of their respective affiliates and any controlling person of any of such holders and (2) each of such holder s respective directors, officers, employees and agents from and against any and all damages, claims, losses, expenses, costs, obligations and liabilities (including all reasonable attorneys fees and expenses), but excluding special or consequential damages, arising from, relating to or otherwise in respect of, any governmental or other third party claim against such indemnified person that arises from, relates to or is otherwise in respect of (i) the business, operations, liabilities or obligations of CB Richard Ellis Group or its subsidiaries or (ii) the ownership by such holder or any of their respective affiliates of any equity securities of CB Richard Ellis Group (except to the extent such losses and expenses (x) arise from any claim that such indemnified person s investment decision relating to the purchase or sale of such securities violated a duty or other obligation of the indemnified person to the claimant or (y) are finally determined in a judicial action by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such holder or

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its affiliates). The indemnification provided by CB Richard Ellis Group is separate from and in addition to any other indemnification by CB Richard Ellis Group to which the indemnified person may be entitled.

Item 15. Recent Sales of Unregistered Securities.

Except as otherwise indicated, all information in this Item 15 of Part II assumes a 3-for-1 stock split of the registrant s outstanding Class A common stock and Class B common stock on May 4, 2004, which split was effected by a stock dividend, and a 1-for-1.0825 reverse stock split of our outstanding Class A common stock and Class B common stock to be effected prior to the completion of the offering. In the three years prior to the filing of this registration statement, the registrant issued the following unregistered securities in private placements conducted pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving public offerings:

(1) On February 22, 2001, the registrant issued and sold 30 shares of its Class B common stock to Blum Strategic Partners, L.P. (formerly known as RCBA Strategic Partners, L.P.) for aggregate cash consideration of $160.00.

(2) On June 7, 2001, the registrant issued and sold 725,625 shares of Class B common stock to Blum Strategic Partners, L.P. for aggregate cash consideration of $3,870,000.

(3) On June 7, 2001, Blum CB Corp., a wholly owned subsidiary of registrant, issued and sold to Credit Suisse First Boston Corporation, Credit Lyonnais Securities (USA) Inc., HSBC Securities (USA) Inc. and Scotia Capital (USA) Inc. $229.0 million in aggregate principal amount of its 11¾% senior subordinated notes due June 15, 2011 at a cash price equal to 98.528% of the aggregate principal amount of such notes and the registrant guaranteed such securities on a senior subordinated basis. On November 21, 2001, CB Richard Ellis Services, Inc. (which assumed the obligations of Blum CB Corp. with respect to the 11¾% senior subordinated notes due June 15, 2011 in connection with the merger of Blum CB Corp. with and into CB Richard Ellis Services on July 20, 2001), the registrant and the other guarantors of such unregistered securities exchanged such securities for 11¾% senior subordinated notes due June 15, 2011 and related guarantees that had been registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-4 (No. 333-70972) that had been declared effective by the Securities and Exchange Commission on October 23, 2001.

(4) On July 20, 2001, the registrant issued and sold to Credit Suisse First Boston Corporation 65,000 units consisting of $65.0 million in aggregate principal amount of its 16% senior notes due July 20, 2011 and 941,764 shares of its Class A common stock for a cash price of $1,000 per unit. On November 21, 2001, the registrant exchanged the unregistered 16% senior notes due July 20, 2011 for 16% senior notes due July 20, 2011 that had been registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-4 (No. 333-70980) that had been declared effective by the Securities and Exchange Commission on October 23, 2001. Also on July 20, 2001, the registrant issued and sold to an affiliate of Credit Suisse First Boston Corporation an aggregate of 504,463 shares in consideration for its prior commitment to purchase such units.

(5) On July 20, 2001, the registrant issued and sold the following unregistered securities:

an aggregate of 22,081,591 shares of its Class B common stock to Blum Strategic Partners, L.P., FS Equity Partners III, L.P., FS Equity Partners International, L.P., The Koll Holding Company, Frederic V. Malek, Ray Wirta and Brett White in consideration for their contribution to the registrant of 7,967,774 shares of the common stock of CB Richard Ellis Services, Inc.;

an aggregate of 12,291,420 shares of its Class B common stock to Blum Strategic Partners, L.P. and Blum Strategic Partners II, L.P. for a cash price of $5.77 per share;

13,857 shares of its Class B common stock to Ray Wirta in consideration for his delivery to the registrant of a full recourse note in the aggregate principal amount of $80,000;

1,732,102 shares of its Class A common stock to California Public Employees Retirement System for a cash price of $5.77 per share; and

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warrants to acquire an aggregate of 708,019 shares of its Class B common stock to FS Equity Partners III, L.P. and FS Equity Partners International, L.P. in consideration for the cancellation of warrants previously held by them to acquire an aggregate of 364,884 shares of common stock of CB Richard Ellis Services.

(6) The registrant has, in recruiting various key employees, offered such employees the right to purchase shares of its Class A common stock, in each case at $5.77 per share:

Number of Shares	Date of Purchase	Consideration
6,928	January 13, 2002	$20,000 cash $20,000 note
34,642	May 31, 2002	$100,000 cash $100,000 note
27,714	January 15, 2003	$80,000 cash $80,000 note
69,284	January 31, 2003	$400,000 cash
8,661	February 10, 2003	$50,000 cash
8,661	February 10, 2003	$50,000 cash
69,284	October 3, 2003	$400,000 cash

Such stock was issued pursuant to the registrant s 2001 Stock Incentive Plan in transactions exempt from registration under Rule 701 promulgated pursuant to the Securities Act of 1933, as amended.

(7) On May 22, 2003, CBRE Escrow, Inc., an indirect wholly owned subsidiary of registrant, issued and sold to Credit Suisse First Boston LLC, Credit Lyonnais Securities (USA) Inc. and HSBC Securities (USA) Inc. $200.0 million in aggregate principal amount of its 9 3/4% senior notes due May 15, 2010 at a cash price equal to 100% of the aggregate principal amount of such notes. In connection with the merger of CBRE Escrow with and into the registrant s wholly owned subsidiary, CB Richard Ellis Services, Inc., on July 23, 2003, CB Richard Ellis Services assumed the obligations of CBRE Escrow with respect to its 9 3/4% senior notes due May 15, 2010 and the registrant guaranteed such securities on a senior basis. On January 7, 2004, CB Richard Ellis Services, Inc., the registrant and the other guarantors of such unregistered securities exchanged such securities for 9 3/4% senior notes due May 15, 2010 and related guarantees that had been registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-4 (No. 333-109841) that had been declared effective by the Securities and Exchange Commission on December 5, 2003.

(8) On July 23, 2003, the registrant issued and sold the following unregistered securities:

an aggregate of 18,421,621 shares of its Class B common stock to Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II GmbH & Co. KG and Frederic V. Malek for a cash price of $5.77 per share; and

an aggregate of 2,363,598 shares of its Class A common stock to DLJ Investment Partners, L.P., DLJ Investment Partners II, L.P., DLJIP II Holdings, L.P. and California Public Employees Retirement System for a cash price of $5.77 per share.

(9) Prior to April 30, 2004, the registrant issued an aggregate of 70,218 shares of its Class A common stock in connection with distributions related to stock fund units under the deferred compensation plan of its wholly owned subsidiary, CB Richard Ellis Services, Inc. The plan participants receiving such shares previously had made aggregate deferrals of $335,296 under the plan with respect to such stock fund units. The issuances of such shares in connection with distributions under such plan were pursuant to Rule 701 promulgated by the Securities and Exchange Commission under Section 3(b) of the Securities Act of 1933, as amended, with respect to transactions pursuant to compensation benefit plans and contracts relating to compensation.

(10) As of April 30, 2004, 3,129,370 shares of the registrant s Class A common stock were underlying stock fund units with respect to and aggregate of $5.4 million of deferrals made under the deferred compensation plan of CB Richard Ellis Services, Inc. Prior to the completion of the offering by the

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registrant, the issuance of any shares in connection with distributions under the plan related to such stock fund units would be pursuant to Rule 701 promulgated by the Securities and Exchange Commission under Section 3(b) of the Securities Act of 1933, as amended, with respect to transactions pursuant to compensation benefit plans and contracts relating to compensation. The registrant intends to file a Registration Statement on Form S-8 under the Securities Act of 1933, as amended, to register shares of its Class A common stock issuable in connection with distributions under such plan. The Registration Statement on Form S-8 is expected to be filed following the effective date of this registration statement.

(11) Prior to April 30, 2004, current and former employees of the registrant had exercised options to acquire an aggregate of 17,321 shares of the registrant s Class A common stock for $5.77 per share. The issuance of such shares in connection with the exercise of such options was pursuant to the registrant s 2001 Stock Incentive Plan and exempt from registration under Rule 701 promulgated pursuant to the Securities Act of 1933, as amended.

(12) As of April 30, 2004, 6,887,701 shares of the registrant s Class A common stock are subject to outstanding options granted under the registrant s 2001 stock incentive plan. Prior to the completion of the offering by the registrant, the issuance of any such shares in connection with the exercise of such options would be pursuant to Rule 701 promulgated by the Securities and Exchange Commission under Section 3(b) of the Securities Act of 1933, as amended, with respect to transactions pursuant to compensation benefit plans and contracts relating to compensation. The registrant intends to file a Registration Statement on Form S-8 under the Securities Act of 1933, as amended, to register shares of its Class A common stock issuable under its 2001 stock incentive plan. The Registration Statement on Form S-8 is expected to be filed following the effective date of this registration statement.

Item 16. Exhibits and Financial Statement Schedules.

Exhibit	Description
1	Form of Underwriting Agreement**
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23.1	Consent of Deloitte & Touche LLP***
23.2	Consent of KPMG LLP*

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23.3	Consent of Ernst & Young LLP*
23.4	Consent of Simpson Thacher & Bartlett LLP (included in Exhibit 5)
24	Powers of Attorney**

* Filed herewith.
** Previously filed.
*** To be filed by amendment.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by the director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on May 20, 2004.

CB Richard Ellis Group, Inc.

By: /s/ Kenneth J. Kay

Name: Kenneth J. Kay

Title: Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed on May 20, 2004 by the following persons in the capacities indicated.

Signature	Title
* **Ray Wirta**	Director and Chief Executive Officer (Principal Executive Officer)
/s/ Kenneth J. Kay **Kenneth J. Kay**	Chief Financial Officer (Principal Financial and Accounting Officer)
* **Brett White**	Director and President
* **Richard C. Blum**	Chairman of the Board
* **Jeffrey A. Cozad**	Director
* **Patrice Marie Daniels**	Director
* **Bradford M. Freeman**	Director
* **Michael Kantor**	Director
*	Director

Frederic V. Malek	
*	Director
Jeffrey S. Pion	
*	Director
Gary L. Wilson	

*By /s/ Kenneth J. Kay

Attorney-in-fact

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