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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the Transition Period from to

Commission File Number 001 32205

CBRE GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

(310) 405-8900
(Registrant s telephone number, including area code)

(Former name, former address and

former fiscal year if changed since last report)

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

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

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

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

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

The number of shares of Class A common stock outstanding at October 31, 2012 was 329,232,692.

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FORM 10-Q

September 30, 2012

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CBRE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 776,260	$ 1,093,182
Restricted cash	64,600	67,138
Receivables, less allowance for doubtful accounts of $37,421 and $33,915 at September 30, 2012 and December 31, 2011, respectively	1,127,992	1,135,371
Warehouse receivables	465,794	720,061
Trading securities	97,059	151,484
Income taxes receivable	85,935	
Prepaid expenses	103,794	111,879
Deferred tax assets, net	172,287	168,939
Real estate under development	41,833	30,617
Real estate and other assets held for sale	52,504	26,201
Available for sale securities	1,083	2,790
Other current assets	48,134	42,385
Total Current Assets	3,037,275	3,550,047
Property and equipment, net	334,860	295,488
Goodwill	1,845,387	1,828,407
Other intangible assets, net of accumulated amortization of $255,929 and $194,982 at September 30, 2012 and December 31, 2011, respectively	769,640	794,325
Investments in unconsolidated subsidiaries	214,231	166,832
Real estate under development	10,992	3,952
Real estate held for investment	360,040	403,698
Available for sale securities	54,769	34,605
Other assets, net	141,583	141,789
Total Assets	$ 6,768,777	$ 7,219,143
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 515,369	$ 574,136
Compensation and employee benefits payable	387,416	398,688
Accrued bonus and profit sharing	353,048	544,628
Securities sold, not yet purchased	44,829	98,810
Income taxes payable		28,368
Short-term borrowings:		
Warehouse lines of credit	458,306	713,362
Revolving credit facility	72,658	44,825
Other	16	16
Total short-term borrowings	530,980	758,203
Current maturities of long-term debt	71,060	67,838
Notes payable on real estate	154,676	146,120
Liabilities related to real estate and other assets held for sale	43,902	21,482
Other current liabilities	42,976	42,375
Total Current Liabilities	2,144,256	2,680,648
Long-Term Debt:		
Senior secured term loans	1,574,661	1,615,773

11.625% senior subordinated notes, net of unamortized discount of $9,871 and $10,984 at September 30, 2012 and December 31, 2011, respectively	440,129	439,016
6.625% senior notes	350,000	350,000
Other long-term debt	6,710	59
Total Long-Term Debt	2,371,500	2,404,848
Notes payable on real estate	168,010	206,339
Deferred tax liabilities, net	163,341	148,969
Non-current tax liabilities	85,084	79,927
Pension liability	61,823	60,860
Other liabilities	255,657	220,389
Total Liabilities	5,249,671	5,801,980
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders Equity:		
Class A common stock; $0.01 par value; 525,000,000 shares authorized; 329,161,194 and 327,972,156 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	3,292	3,280
Additional paid-in capital	940,940	882,141
Accumulated earnings	567,056	424,499
Accumulated other comprehensive loss	(170,856)	(158,439)
Total CBRE Group, Inc. Stockholders Equity	1,340,432	1,151,481
Non-controlling interests	178,674	265,682
Total Equity	1,519,106	1,417,163
Total Liabilities and Equity	$ 6,768,777	$ 7,219,143

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenue	$ 1,557,147	$ 1,534,463	$ 4,508,253	$ 4,141,786
Costs and expenses:				
Cost of services	915,245	894,607	2,610,944	2,448,184
Operating, administrative and other	482,362	469,138	1,405,461	1,279,019
Depreciation and amortization	40,102	31,308	124,895	79,871
Non-amortizable intangible asset impairment	19,826		19,826	
Total costs and expenses	1,457,535	1,395,053	4,161,126	3,807,074
Gain on disposition of real estate	3,983	3,595	5,231	11,594
Operating income	103,595	143,005	352,358	346,306
Equity income from unconsolidated subsidiaries	2,875	6,714	19,870	38,961
Other income (loss)	151	(5,809)	4,635	(5,809)
Interest income	1,895	2,493	5,783	7,063
Interest expense	43,651	39,080	132,043	107,014
Income from continuing operations before provision for income taxes	64,865	107,323	250,603	279,507
Provision for income taxes	22,160	47,290	102,353	117,032
Income from continuing operations	42,705	60,033	148,250	162,475
Income from discontinued operations, net of income taxes				16,911
Net income	42,705	60,033	148,250	179,386
Less: Net income (loss) attributable to non-controlling interests	2,996	(3,774)	5,693	19,987
Net income attributable to CBRE Group, Inc.	$ 39,709	$ 63,807	$ 142,557	$ 159,399
Basic income per share attributable to CBRE Group, Inc. shareholders				
Income from continuing operations attributable to CBRE Group, Inc.	$ 0.12	$ 0.20	$ 0.44	$ 0.50
Income from discontinued operations attributable to CBRE Group, Inc.				
Net income attributable to CBRE Group, Inc.	$ 0.12	$ 0.20	$ 0.44	$ 0.50
Weighted average shares outstanding for basic income per share	322,331,850	318,867,447	321,289,017	317,718,150
Diluted income per share attributable to CBRE Group, Inc. shareholders				

Income from continuing operations attributable to CBRE Group, Inc.	$	0.12	$	0.20	$	0.44	$	0.49
Income from discontinued operations attributable to CBRE Group, Inc.								
Net income attributable to CBRE Group, Inc.	$	0.12	$	0.20	$	0.44	$	0.49
Weighted average shares outstanding for diluted income per share		327,309,341		323,714,703		326,380,448		323,584,637
Amounts attributable to CBRE Group, Inc. shareholders								
Income from continuing operations, net of tax	$	39,709	$	63,807	$	142,557	$	159,399
Income from discontinued operations, net of tax								
Net income	$	39,709	$	63,807	$	142,557	$	159,399

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 42,705	$ 60,033	$ 148,250	$ 179,386
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	15,422	(67,922)	(6,237)	(22,377)
Unrealized losses on interest rate swaps and interest rate caps, net	(1,938)	(16,285)	(6,298)	(23,062)
Unrealized gains (losses) on available for sale securities, net	323	(49)	137	134
Other, net	(164)	1,508	(331)	1,831
Total other comprehensive income (loss)	13,643	(82,748)	(12,729)	(43,474)
Comprehensive income (loss)	56,348	(22,715)	135,521	135,912
Less: Comprehensive income (loss) attributable to non-controlling interests	3,071	(5,785)	5,381	18,806
Comprehensive income (loss) attributable to CBRE Group, Inc.	$ 53,277	$ (16,930)	$ 130,140	$ 117,106

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 148,250	$ 179,386
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	124,895	80,396
Amortization of financing costs	7,135	5,141
Non-amortizable intangible asset impairment	19,826	
Write-down of impaired real estate		1,625
Gain on sale of loans, servicing rights and other assets	(71,969)	(50,913)
Net realized and unrealized (gains) losses from investments	(4,635)	5,809
Gain on disposition of real estate held for investment	(1,539)	(20,383)
Equity income from unconsolidated subsidiaries	(19,870)	(38,961)
Provision for doubtful accounts	5,305	6,996
Compensation expense related to stock options and non-vested stock awards	37,867	32,866
Incremental tax benefit from stock options exercised	(167)	(15,266)
Distribution of earnings from unconsolidated subsidiaries	11,124	15,441
Tenant concessions received	16,140	38,669
Purchase of trading securities	(172,200)	(63,449)
Proceeds from sale of trading securities	160,029	156,876
Proceeds from securities sold, not yet purchased	126,675	108,206
Securities purchased to cover short sales	(134,696)	(90,364)
Increase in receivables	(2,345)	(35,810)
Increase in prepaid expenses and other assets	(8,840)	(15,561)
(Increase) decrease in real estate held for sale and under development	(8,637)	25,502
Decrease in accounts payable and accrued expenses	(47,990)	(32,471)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(231,961)	(160,634)
Increase in income taxes receivable/payable	(81,526)	(30,449)
Increase in other liabilities	8,549	5,856
Other operating activities, net	644	(4,384)
Net cash (used in) provided by operating activities	(119,936)	104,124
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(80,587)	(95,398)
Acquisition of Clarion Real Estate Securities, including net assets acquired, intangibles and goodwill, net of cash acquired		(215,865)
Acquisition of businesses (other than Clarion Real Estate Securities), including net assets acquired, intangibles and goodwill, net of cash acquired	(17,595)	(49,790)
Contributions to unconsolidated subsidiaries	(55,000)	(22,245)
Distributions from unconsolidated subsidiaries	14,655	42,048
Net proceeds from disposition of real estate held for investment	32,200	115,514
Additions to real estate held for investment	(5,783)	(7,454)
Proceeds from the sale of servicing rights and other assets	23,930	16,958
Decrease (increase) in restricted cash	3,698	(328,344)
Decrease in cash due to deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)	(73,187)	
Other investing activities, net	4,157	(1,965)
Net cash used in investing activities	(153,512)	(546,541)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior secured term loans		800,000
Repayment of senior secured term loans	(51,032)	(30,500)
Proceeds from revolving credit facility	41,270	993,733

Repayment of revolving credit facility	(15,230)	(967,414)
Proceeds from notes payable on real estate held for investment	4,652	5,697
Repayment of notes payable on real estate held for investment	(36,613)	(98,964)
Proceeds from notes payable on real estate held for sale and under development	14,711	4,684
Repayment of notes payable on real estate held for sale and under development	(7,625)	(26,594)
Proceeds from exercise of stock options	16,401	7,059
Incremental tax benefit from stock options exercised	167	15,266
Non-controlling interests contributions	15,956	9,400
Non-controlling interests distributions	(29,211)	(90,584)
Payment of financing costs	(199)	(22,150)
Other financing activities, net	(1,022)	(112)
Net cash (used in) provided by financing activities	(47,775)	599,521
Effect of currency exchange rate changes on cash and cash equivalents	4,301	(1,084)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(316,922)	156,020
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	1,093,182	506,574
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 776,260	$ 662,594
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 102,973	$ 79,077
Income tax payments, net	$ 180,911	$ 144,877

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(Dollars in thousands)

	CBRE Group, Inc. Shareholders					
	Class A common stock	Additional paid-in capital	Accumulated earnings	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance at December 31, 2011	$ 3,280	$ 882,141	$ 424,499	$ (158,439)	$ 265,682	$ 1,417,163
Net income			142,557		5,693	148,250
Stock options exercised (including tax benefit)	13	16,555				16,568
Compensation expense for stock options and non-vested stock awards		37,867				37,867
Foreign currency translation loss				(5,925)	(312)	(6,237)
Unrealized losses on interest rate swaps and interest rate caps, net				(6,298)		(6,298)
Unrealized gains on available for sale securities, net				137		137
Contributions from non-controlling interests					15,956	15,956
Distributions to non-controlling interests					(29,211)	(29,211)
Deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)					(91,580)	(91,580)
Other	(1)	4,377		(331)	12,446	16,491
Balance at September 30, 2012	$ 3,292	$ 940,940	$ 567,056	$ (170,856)	$ 178,674	$ 1,519,106

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

2. New Accounting Pronouncements

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

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. REIM Acquisitions

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

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

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

Purchase of CRES on July 1, 2011	$ 332,916
Purchase of CRES co-investments on July 1, 2011	58,566
Purchase of ING REIM Asia on October 3, 2011	45,315
Purchase of ING REIM Europe on October 31, 2011	442,543
Total purchase price	$ 879,340

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

In connection with our acquisition of CRES, we acquired CRES co-investments from ING in three funds (CRES Funds) for an aggregate purchase price of $58.6 million, which has been included above. We determined that the CRES Funds were not variable interest entities and accordingly determined the method of accounting based upon voting control. The limited partners/members of the CRES Funds lack substantive rights that would overcome our presumption of control. Accordingly, we began consolidating the CRES Funds as of the acquisition date of July 1, 2011. Included in the consolidation of the CRES Funds on July 1, 2011 was $182.9 million of non-controlling interests. In connection with the REIM Acquisitions, we also acquired three ING REIM Asia co-investments from ING for an aggregate amount of $13.9 million on October 3, 2011 and several ING REIM Europe co-investments, including one for $7.4 million on October 31, 2011, and nine additional co-investments for an aggregate amount of $35.2 million during the nine months ended September 30, 2012.

In January 2012, one of the CRES Funds (CBRE Clarion U.S., L.P.) was converted to a registered mutual fund, the CBRE Clarion Long/Short Fund (the Fund). As a result of this triggering event, we determined that the

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fund became a variable interest entity and that we were not the primary beneficiary. Accordingly, in the first quarter of 2012, the Fund was deconsolidated from our consolidated financial statements and we recorded an investment in available for sale securities of $14.3 million. No gain or loss was recognized in our consolidated statement of operations as a result of this deconsolidation. We continue to act as the Fund s adviser, make investment decisions for the Fund and review, supervise and administer the Fund s investment program.

The purchase accounting for the CRES and ING REIM Asia portions of the REIM Acquisitions has been finalized. The preliminary purchase accounting adjustments related to the ING REIM Europe portion of the REIM Acquisitions has been recorded in the accompanying consolidated financial statements. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. The purchase price allocation is expected to be completed as soon as practicable, but no later than one year from the acquisition date.

Unaudited pro forma results, assuming the REIM Acquisitions had occurred as of January 1, 2011 for purposes of the 2011 pro forma disclosures, are presented below. They include certain adjustments for the three and nine months ended September 30, 2011, including $3.3 million and $16.1 million, respectively, of increased amortization expense as a result of intangible assets acquired in the REIM Acquisitions, $2.5 million and $18.7 million, respectively, of additional interest expense as a result of debt incurred to finance the REIM Acquisitions, the removal of $14.9 million and $27.6 million, respectively, of direct costs incurred by us and ING related to the REIM Acquisitions, and the tax impact of the pro forma adjustments. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the REIM Acquisitions occurred on January 1, 2011 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Revenue	$	1,593,226	$	4,360,982
Operating income	$	158,192	$	394,434
Net income attributable to CBRE Group, Inc.	$	73,291	$	185,983
Basic income per share	$	0.23	$	0.59
Weighted average shares outstanding for basic income per share		318,867,447		317,718,150
Diluted income per share	$	0.23	$	0.57
Weighted average shares outstanding for diluted income per share		323,714,703		323,584,637

4. Variable Interest Entities (VIEs)

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

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

the properties themselves. As of the most recent reconsideration date, such financial support has been significant enough that the Venture was deemed to be the primary beneficiary of each Entity.

An additional Entity was consolidated during the nine months ended September 30, 2012. The related real estate assets held for investment were $26.3 million, nonrecourse mortgage notes payable were $15.8 million and non-controlling interests were $10.6 million as of September 30, 2012.

During both the nine months ended September 30, 2012 and 2011, the Venture funded $0.2 million of financial support to the Entities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 3,791	$ 7,055	$ 10,385	$ 22,873
Operating, administrative and other expenses	$ 2,121	$ 4,057	$ 6,146	$ 11,689
Income from discontinued operations, net of income taxes	$	$	$	$ 16,911
Net (loss) income attributable to non-controlling interests	$ (887)	$ (1,914)	$ (2,904)	$ 11,154

Investments in real estate of $85.7 million and $61.3 million and nonrecourse mortgage notes payable of $77.4 million ($17.1 million of which is current) and $60.9 million ($1.2 million of which is current) are included in real estate held for investment and notes payable on real estate, respectively, in the accompanying consolidated balance sheets as of September 30, 2012 and December 31, 2011, respectively. In addition, non-controlling interests of $9.9 million and $1.6 million in the accompanying consolidated balance sheets as of September 30, 2012 and December 31, 2011, respectively, are attributable to the Entities.

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

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

	September 30, 2012	December 31, 2011
Investments in unconsolidated subsidiaries	$ 48,309	$ 15,483
Available for sale securities	14,205	
Other assets, current	3,099	
Co-investment commitments	7,649	37,019
Maximum exposure to loss	$ 73,262	$ 52,502

CBRE GROUP, INC.

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(Unaudited)

5. Fair Value Measurements

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

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

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

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

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

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

	As of September 30, 2012			
	Fair Value Measured and Recorded Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available for sale securities:				
U.S. treasury securities	$ 9,834	$	$	$ 9,834
Debt securities issued by U.S. federal agencies		2,210		2,210
Corporate debt securities		9,001		9,001
Asset-backed securities		5,307		5,307
Collateralized mortgage obligations		2,931		2,931
Total debt securities	9,834	19,449		29,283
Equity securities	26,569			26,569
Total available for sale securities	36,403	19,449		55,852
Trading securities	97,059			97,059
Warehouse receivables		465,794		465,794

Total assets at fair value	$ 133,462	$ 485,243	$	$ 618,705
Liabilities				
Securities sold, not yet purchased	$ 44,829	$	$	$ 44,829
Interest rate swaps		50,199		50,199
Total liabilities at fair value	$ 44,829	$ 50,199	$	$ 95,028

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

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

The valuation of interest rate swaps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves. To comply with the provisions of Topic 820, we incorporate

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with our adoption of ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2012, we have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 in the fair value hierarchy.

The following non-recurring fair value measurements were recorded during the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Net Carrying Value as of September 30, 2012	Fair Value Measured and Recorded Using			Total Impairment Charges for the Three and Nine Months Ended September 30, 2012
		Level 1	Level 2	Level 3	
Other intangible assets	$	$	$	$	$ 19,826

	Net Carrying Value as of September 30, 2011	Fair Value Measured and Recorded Using			Total Impairment Charges for the Three and Nine Months Ended September 30, 2011
		Level 1	Level 2	Level 3	
Investments in unconsolidated subsidiaries	$ 22,054	$	$	$ 22,054	$ 4,601
Real estate	$ 31,619	$	$	$ 31,619	1,625
Total impairment charges					$ 6,226

Other Intangible Assets

During the three and nine months ended September 30, 2012, we recorded a non-amortizable intangible asset impairment of $19.8 million in our EMEA segment. This non-cash write-off related to the discontinuation of the use of a trade name in the United Kingdom (U.K.).

Investments in Unconsolidated Subsidiaries

During the three and nine months ended September 30, 2011, we recorded write-downs of $4.6 million, of which $4.5 million was reported in our Global Investment Management segment and $0.1 million was reported in our Development Services segment. These write-downs were primarily driven by a decrease in the estimated holding period of certain assets.

All of our impairment charges related to investments in unconsolidated subsidiaries were included in equity income from unconsolidated subsidiaries in the accompanying consolidated statements of operations. When we performed our impairment analysis, the assumptions utilized reflected our outlook for the commercial real estate industry and the expected impact on our business. This outlook incorporated our belief that market conditions deteriorated and that these challenging conditions could persist for some time.

Real Estate

During the three and nine months ended September 30, 2011, we recorded a $1.3 million provision for losses on real estate held for sale. This charge reduced the carrying value of certain assets to their fair value, less cost to sell, primarily due to reduced expected selling prices resulting from continued challenging market conditions. In addition, during the three and nine months ended September 30, 2011, we recorded an impairment charge of $0.3 million related to real estate held for investment, the majority of which was attributable to non-controlling interests. This investment write-down was attributable to slower than expected leasing.

All of our impairment charges related to real estate were included in operating, administrative and other expenses in the accompanying consolidated statements of operations within our Development Services segment. If conditions in the broader economy, commercial real estate industry, specific markets or product types in which we operate worsen, we may be required to evaluate additional projects or re-evaluate previously impaired projects for potential impairment. These evaluations could result in additional impairment charges, which may be material.

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

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

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

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

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

11.625% Senior Subordinated Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 11.625% senior subordinated notes was $495.1 million at September 30, 2012. Their actual carrying value totaled $440.1 million at September 30, 2012.

6.625% Senior Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 6.625% senior notes was $383.3 million at September 30, 2012. Their actual carrying value totaled $350.0 million at September 30, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Notes Payable on Real Estate: As of September 30, 2012, the carrying value of our notes payable on real estate was $365.6 million (see Note 9). These borrowings mostly have floating interest rates at spreads over a market rate index. It is likely that some portion of our notes payable on real estate have fair values lower than actual carrying values. Given our volume of notes payable and the cost involved in estimating their fair value, we determined it was not practicable to do so. Additionally, only $13.6 million of these notes payable are recourse to us as of September 30, 2012.

6. Investments in Unconsolidated Subsidiaries

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Global Investment Management:				
Revenue	$ 209,747	$ 144,728	$ 581,362	$ 443,883
Operating loss	$ (3,776)	$ (88,371)	$ (10,663)	$ (131,669)
Net income	$ 101,655	$ 157,754	$ 71,998	$ 87,487
Development Services:				
Revenue	$ 24,554	$ 38,235	$ 66,194	$ 85,816
Operating income	$ 4,216	$ 8,218	$ 36,696	$ 85,015
Net (loss) income	$ (1,540)	$ (2,463)	$ 18,431	$ 56,668
Other:				
Revenue	$ 41,930	$ 54,300	$ 111,907	$ 121,102
Operating income	$ 5,249	$ 9,655	$ 12,978	$ 18,088
Net income	$ 5,276	$ 9,840	$ 13,925	$ 18,339
Total:				
Revenue	$ 276,231	$ 237,263	$ 759,463	$ 650,801
Operating income (loss)	$ 5,689	$ (70,498)	$ 39,011	$ (28,566)
Net income	$ 105,391	$ 165,131	$ 104,354	$ 162,494

During the three and nine months ended September 30, 2011, we recorded non-cash write-downs of investments of $4.6 million within our Global Investment Management and Development Services segments. See Note 5 for additional information.

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	September 30, 2012	December 31, 2011
Assets:		
Real estate held for sale (see Note 8)	$ 49,562	$ 21,833
Other current assets	891	531
Property and equipment, net	235	
Other assets	1,816	3,837
Total real estate and other assets held for sale	52,504	26,201
Liabilities:		
Notes payable on real estate held for sale (see Note 9)	42,904	20,453
Accounts payable and accrued expenses	798	891
Other current liabilities	88	8
Other liabilities	112	130
Total liabilities related to real estate and other assets held for sale	43,902	21,482
Net real estate and other assets held for sale	$ 8,602	$ 4,719

8. Real Estate

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

	September 30, 2012	December 31, 2011
Real estate included in assets held for sale (see Note 7)	$ 49,562	$ 21,833
Real estate under development (current)	41,833	30,617
Real estate under development (non-current)	10,992	3,952
Real estate held for investment (1)	360,040	403,698
Total real estate (2)	$ 462,427	$ 460,100

(1) Net of accumulated depreciation of $42.0 million and $40.7 million at September 30, 2012 and December 31, 2011, respectively.

(2) Includes balances for lease intangibles and tenant origination costs of $8.3 million and $1.6 million, respectively, at September 30, 2012 and $8.7 million and $2.0 million, respectively, at December 31, 2011. We record lease intangibles and tenant origination costs upon acquiring real estate projects with in-place leases. The balances are shown net of amortization, which is recorded as an increase to, or a reduction of, rental income for lease intangibles and as amortization expense for tenant origination costs.

During the three and nine months ended September 30, 2011, we recorded a $1.3 million provision for losses on real estate held for sale within our Development Services segment. In addition, during the three and nine months ended September 30, 2011, we recorded an impairment charge of $0.3 million related to real estate held for investment. See Note 5 for additional information.

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(Unaudited)

9. Notes Payable on Real Estate

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

	September 30, 2012	December 31, 2011
Current portion of notes payable on real estate	$ 154,676	$ 146,120
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 7)	42,904	20,453
Total notes payable on real estate, current portion	197,580	166,573
Notes payable on real estate, non-current portion	168,010	206,339
Total notes payable on real estate	$ 365,590	$ 372,912

At September 30, 2012 and December 31, 2011, $13.5 million and $2.4 million, respectively, of the current portion of notes payable on real estate and $0.1 million and $11.2 million, respectively, of the non-current portion of notes payable on real estate were recourse to us, beyond being recourse to the single-purpose entity that held the real estate asset and was the primary obligor on the note payable.

10. Debt

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

As of September 30, 2012, our Credit Agreement provides for the following: (1) a $700.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, maturing on May 10, 2015; (2) a $350.0 million tranche A term loan facility requiring quarterly principal payments, which began on December 31, 2010 and continue through September 30, 2015, with the balance payable on November 10, 2015; (3) a £187.0 million (approximately $300.0 million) tranche A-1 term loan facility requiring quarterly principal payments, which began on December 30, 2011 and continue through March 31, 2016, with the balance payable on May 10, 2016; (4) a $300.0 million tranche B term loan facility requiring quarterly principal payments, which began on December 31, 2010 and continue through September 30, 2016, with the balance payable on November 10, 2016; (5) a $400.0 million tranche C term loan facility requiring quarterly principal payments, which began on September 30, 2011 and continue through December 31, 2017, with the balance payable on March 4, 2018; (6) a $400.0 million tranche D term loan facility requiring quarterly principal payments, which began on September 30, 2011 and continue through June 30, 2019, with the balance payable on September 4, 2019 and (7) an accordion provision which provides the ability to borrow additional funds under an incremental facility. The incremental facility is equivalent to the sum of $800.0 million and the aggregate amount of all repayments of term loans and permanent reductions of revolver commitments under the Credit Agreement. However, at no time may the sum of all outstanding amounts under the Credit Agreement exceed $2.95 billion. On November 10, 2011, we utilized the incremental facility to issue the tranche A-1 term loan facility.

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

The revolving credit facility allows for borrowings outside of the U.S., with sub-facilities of $5.0 million available to one of our Canadian subsidiaries, $35.0 million in aggregate available to one of our Australian and one of our New Zealand subsidiaries and $50.0 million available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision in the Credit Agreement. Borrowings under the revolving credit facility as of September 30, 2012 bear interest at varying rates, based at our option, on either the applicable fixed rate plus 1.65% to 3.15% or the daily rate plus 0.65% to 2.15% as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of September 30, 2012 and December 31, 2011, we had $72.7 million and $44.8 million, respectively, of revolving credit facility principal outstanding with related weighted average interest rates of 3.3% and 4.3%, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. As of September 30, 2012, letters of credit totaling $17.3 million were outstanding under the revolving credit facility. These letters of credit were primarily issued in the normal course of business as well as in connection with certain insurance programs and reduce the amount we may borrow under the revolving credit facility.

Borrowings under the term loan facilities as of September 30, 2012 bear interest, based at our option, on the following: for the tranche A and A-1 term loan facilities, on either the applicable fixed rate plus 2.00% to 3.75% or the daily rate plus 1.00% to 2.75%, as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement), for the tranche B term loan facility, on either the applicable fixed rate plus 3.25% or the daily rate plus 2.25%, for the tranche C term loan facility, on either the applicable fixed rate plus 3.25% or the daily rate plus 2.25% and for the tranche D term loan facility, on either the applicable fixed rate plus 3.50% or the daily rate plus 2.50%. As of September 30, 2012 and December 31, 2011, we had $280.0 million and $306.3 million, respectively, of tranche A term loan facility principal outstanding, $279.3 million and $285.1 million, respectively, of tranche A-1 term loan facility principal outstanding, $294.0 million and $296.3 million, respectively, of tranche B term loan facility principal outstanding, $395.0 million and $398.0 million, respectively, of tranche C term loan facility principal outstanding and $395.0 million and $398.0 million, respectively, of tranche D term loan facility principal outstanding, which are included in the accompanying consolidated balance sheets.

In March 2011, we entered into five interest rate swap agreements, all with effective dates in October 2011, and immediately designated them as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. The purpose of these interest rate swap agreements is to hedge potential changes to our cash flows due to the variable interest nature of our senior secured term loan facilities. The total notional amount of these interest rate swap agreements is $400.0 million, with $200.0 million expiring in October 2017 and $200.0 million expiring in September 2019. There was no hedge ineffectiveness for the three and nine months ended September 30, 2012 and 2011. We recorded net losses of $3.2 million and $10.3 million, respectively, during the three and nine months ended September 30, 2012 and $27.5 million and $39.1 million, respectively, during the three and nine months ended September 30, 2011 to other comprehensive loss in relation to these interest rate

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swap agreements. As of September 30, 2012 and December 31, 2011, the fair values of these interest rate swap agreements were reflected as a $50.2 million liability and a $39.9 million liability, respectively, and were included in other long-term liabilities in the accompanying consolidated balance sheets.

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

Our Credit Agreement and the indentures governing our 6.625% senior notes and 11.625% senior subordinated notes contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of EBITDA (as defined in the Credit Agreement) to total interest expense of 2.25x and a maximum leverage ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement) of 3.75x. Our coverage ratio of EBITDA to total interest expense was 10.19x for the trailing twelve months ended September 30, 2012 and our leverage ratio of total debt less available cash to EBITDA was 1.74x as of September 30, 2012.

11. Commitments and Contingencies

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any losses in excess of the amounts accrued arising from such lawsuits are remote, but that litigation is inherently uncertain and there is the potential for a material adverse effect on our financial statements if one or more matters are resolved in a particular period in an amount in excess of that anticipated by management.

We had outstanding letters of credit totaling $16.9 million as of September 30, 2012, excluding letters of credit for which we have outstanding liabilities already accrued on our consolidated balance sheet related to our subsidiaries outstanding reserves for claims under certain insurance programs as well as letters of credit related to operating leases. These letters of credit are primarily executed by us in the ordinary course of business and expire at varying dates through July 2013.

We had guarantees totaling $32.4 million as of September 30, 2012, excluding guarantees related to pension liabilities, consolidated indebtedness and other obligations for which we have outstanding liabilities already accrued on our consolidated balance sheet, and operating leases. The $32.4 million primarily consists of guarantees related to our defined benefit pension plans in the U.K. (in excess of our outstanding pension liability of $61.8 million as of September 30, 2012), which are continuous guarantees that will not expire until all amounts have been paid out for our pension liabilities. The remainder of the guarantees mainly represents guarantees of obligations of unconsolidated subsidiaries, which expire at varying dates through September 2015, as well as various guarantees of management contracts in our operations overseas, which expire at the end of each of the respective agreements.

In addition, as of September 30, 2012, we had numerous completion and budget guarantees relating to development projects. These guarantees are made by us in the ordinary course of our Development Services business. Each of these guarantees requires us to complete construction of the relevant project within a specified

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(Unaudited)

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

In January 2008, CBRE Multifamily Capital, Inc. (CBRE MCI), a wholly-owned subsidiary of CBRE Capital Markets, Inc., entered into an agreement with Fannie Mae, under Fannie Mae s DUS Lender Program (DUS Program), to provide financing for multifamily housing with five or more units. Under the DUS Program, CBRE MCI originates, underwrites, closes and services loans without prior approval by Fannie Mae, and in selected cases, is subject to sharing up to one-third of any losses on loans originated under the DUS Program. CBRE MCI has funded loans subject to such loss sharing arrangements with unpaid principal balances of $4.9 billion at September 30, 2012. Additionally, CBRE MCI has funded loans under the DUS Program that are not subject to loss sharing arrangements with unpaid principal balances of approximately $544.2 million at September 30, 2012. CBRE MCI, under its agreement with Fannie Mae, must post cash reserves under formulas established by Fannie Mae to provide for sufficient capital in the event losses occur. As of September 30, 2012 and December 31, 2011, CBRE MCI had $7.5 million and $4.6 million, respectively, of cash deposited under this reserve arrangement, and had provided approximately $9.2 million and $6.4 million, respectively, of loan loss accruals. Fannie Mae s recourse under the DUS Program is limited to the assets of CBRE MCI, which totaled approximately $299.7 million (including $203.6 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at September 30, 2012.

An important part of the strategy for our Global Investment Management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2.0% to 5.0% of the equity in a particular fund. As of September 30, 2012, we had aggregate commitments of $33.1 million to fund future co-investments.

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

12. Income Per Share Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Computation of basic income per share attributable to CBRE Group, Inc. shareholders:				
Net income attributable to CBRE Group, Inc. shareholders	$ 39,709	$ 63,807	$ 142,557	$ 159,399
Weighted average shares outstanding for basic income per share	322,331,850	318,867,447	321,289,017	317,718,150
Basic income per share attributable to CBRE Group, Inc. shareholders	$ 0.12	$ 0.20	$ 0.44	$ 0.50

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Computation of diluted income per share attributable to CBRE Group, Inc. shareholders:				
Net income attributable to CBRE Group, Inc. shareholders	$ 39,709	$ 63,807	$ 142,557	$ 159,399
Weighted average shares outstanding for basic income per share	322,331,850	318,867,447	321,289,017	317,718,150
Dilutive effect of contingently issuable shares	3,377,782	3,125,397	3,377,132	3,559,385
Dilutive effect of stock options	1,599,709	1,721,859	1,714,299	2,307,102
Weighted average shares outstanding for diluted income per share	327,309,341	323,714,703	326,380,448	323,584,637
Diluted income per share attributable to CBRE Group, Inc. shareholders	$ 0.12	$ 0.20	$ 0.44	$ 0.49