

THE DEVIL'S ADVOCATE REPORT

Editorial Content—Horizon Research Group

Steven Bregman, Peter Doyle, Thomas Ewing, Michael Gallant, Naveen Kumar, Tina Larsson, Vivek Ratan,
Peter Schweitzer, Eric Sites, Murray Stahl, Fredrik Tjernstrom, Arul Thareja, Steven Tuen

Sales and Administration—Institutional Research Services, 55 Liberty Street, Suite 13C, New York, NY 10005 (212) 233-0100

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CB Richard Ellis Group

Price:	\$25.36	Ticker:	CBG
52-wk. range:	\$13.67 - \$29.83	Dividend:	None
Shares out:	225 million	Yield:	n/a
Market Cap.:	\$5,706 million		

Valuation calculations are based on a CBG share price of \$24.75

Investment Thesis

Approximately two years of Federal Reserve Bank interest rate increases from the low levels of June 2004, have been required such that the earnings of the conventional home builders have been placed in question. Interestingly, although the question of earnings stability has been raised with regard to the home builders, the consensus of analysts maintains that the earnings decline in the next fiscal year is likely to be rather mild. For instance, Toll Brothers (NYSE –TOL, recommended short sale by Devil's Advocate on 1/13/04) is believed to be in danger of experiencing a 14% decline in earnings during the course of its next fiscal year. If this forecast proves to be accurate, Toll Brothers is at this moment trading at 6.5x fiscal 2007 estimates for a year ending October 2007. If such earnings were to be achieved despite Federal Reserve policy pressure, the result would be a return on equity in 2007 of roughly 17.6% which is approximately equivalent to the return on equity recorded in fiscal 2003 at the time of the most liberal monetary policy in U.S. financial history.

Of course, it must be observed that the recently completed October 2005 fiscal year generated a return on shareholders' equity of 29.2%. Thus, the low multiple now reflects a justifiable skepticism regarding the ultimate normalized ROE of Toll Brothers. The exact circumstance may be observed in the relevant analytical and trading statistics of all other home building companies.

THE DEVIL'S ADVOCATE REPORT

It is for this reason that the shares of CB Richard Ellis are interesting to real estate oriented short sellers. The company is a real estate broker active in all aspects of real estate from conventional commercial and residential brokerage, to office management to real estate oriented investment management. Yet, the consensus view of the prospects for CB Richard Ellis is quite different from the consensus view for the prospects of the conventional homebuilders. Analysts anticipate a 15% increase in earnings over the course of the next year. The forecast results for 2007, if actually achieved would be equivalent to a return on equity of nearly 40%. Alternatively expressed, if one were to propose that the CB Richard Ellis business can only produce a return on equity of perhaps 15%, then one effectively proposes that the company will only earn half of the consensus estimate. In fact, the ROE for CB Richard Ellis for the year 2004 was only 11.6% (including various non-recurring expenses).

Consequently, the central analytical question is whether the business can expand at the forecasted rate despite the challenges that now confront the asset class of real estate. Of course, if the consensus view of real estate were more positive as was the case only several months ago, there would exist no intriguing logical inconsistency. The consensus view is that real estate is cyclical. The consensus view is that current real estate conditions globally are deteriorating because of efforts of central banks around the world to restore interest rates to historically normal levels. Yet, the same consensus view is that CB Richard Ellis is a growth company active in a cyclical industry.

CB Richard Ellis is a company with very high operating leverage. It was once a firm with rather high financial leverage but this has greatly diminished in recent years. Historically, it was a firm with very low net profit margins. The current net profit margin is roughly 5.3%*. A decline of one percentage point in net margin is a decline of almost 20% of earnings. Such a decline or even far greater can be created by such mechanisms as a rather small decline in mortgage origination revenues.

Analysts expect the 2006 net profit margin to exceed 8%. The 2006 recorded profits should be almost 30% above the level of 2005. As noted previously, it is expected that the 2007 progress will not be at this rate. Nevertheless, the shares trade at 19x the 2006 estimates and 16.6x the 2007 estimate. The company appears to be viewed as if it were a growth company. If this view is indeed correct, owners of the shares might well expect a return more or less consistent with the anticipated rate of earnings progress. However, if the company does not prove to be immune to general real estate market pressures, its earnings margins and ROE are at least likely to return to historical levels. In this circumstance, the earnings and the share price are likely to decline substantially. The position to be expressed in this paper is that it is rather unlikely that CB Richard Ellis will prove immune to quite visible deterioration in global real estate markets. Accordingly, sale of these shares is recommended.

* based upon 1Q 2006 earnings as reported.

THE DEVIL'S ADVOCATE REPORT

Background Information

A - The Creation of the Contemporary CB Richard Ellis

Although the company has been in existence for over one century, it is quite different in its current configuration than it has been for most of its corporate existence. The company can trace its origin to the Great San Francisco Earthquake of 1906. It appears that in the aftermath of this event there were many people who wished to engage in real estate transactions. The company gradually expanded over the course of nine decades to most regions of the United States. Its transformative year occurred in 1989. In that year the employees, with the assistance of some private investors, acquired ownership. At this point the company was named CB Commercial. The employees as management had as a goal to establish a presence in other areas of commercial real estate apart from conventional brokerage. These individuals also sought to expand the firm's presence into international areas of operation.

Thus, throughout the 1990s CB Commercial acquired several real estate oriented firms to accomplish these expansive goals. Such acquisitions included the purchase of Westmark Realty Advisors in 1995, which was engaged in real estate investment management, the mortgage banking firm known as L.J. Melody & Company in 1996, and Koll Real Estate Company in 1997. The latter transaction further established the investment management operations and also provided a mechanism to enter the real estate capital markets business. CB Commercial was at that point, as it is currently, engaged in most aspects of commercial real estate.

In 1996, CB Commercial completed an initial public offering and later changed the corporate name to CB Commercial Real Estate Services in 1998. It was also in this year that the company purchased REI Limited as well as the London-based firm known as Hillier Parker May & Rowden. At this time, another corporate name change was implemented. It was now known as CB Richard Ellis Services, Inc.

After roughly five years of public existence, the company was taken private in 2001 by members of management and two private equity firms, Blum Capital Partners and Freeman Spigoli & Co. While in private mode once again, CB Richard Ellis completed one of the largest acquisitions in its history, which was the purchase of a firm known as Insignia Financial Group. This occurred in the year of 2003. Insignia provided the company with several real estate advisory and outsourcing services in the most productive metropolitan markets, such as New York, London, and Paris. Now equipped with a truly global franchise and, perhaps, most importantly, an equity capital market in 2004 eager to accommodate real estate offerings, the private equity owners took the firm public in June 2004. This time around, the firm was named CB Richard Ellis Group.

THE DEVIL'S ADVOCATE REPORT

Subsequently, a follow-on offering occurred in December of the same year to provide additional financing capacity.

As demonstrated, the contemporary CB Richard Ellis Group is the product of numerous acquisitions. Since it was a private entity throughout much of its history, debt was the method of expansion financing. In 2003, debt had reached 2.4x shareholders' equity. However, a robust real estate market over the last few years has allowed the company to generate a sufficient amount of cash flow and subsequently retire a good portion of this debt.

B- Operational Business Segments

Financial results are officially reported by geographic location, rather than by specific business activity. There are three regions, those being: 1) Americas, 2) Europe, Middle East and Africa, and 3) Asia Pacific. The company also reports a fourth separate division known as Global Investment Management. A qualitative discussion of the company's business activities will be located under the "Americas" heading. This is because the firm performs essentially identical services internationally as in the U.S.

The Americas: The United States, Canada, and Mexico provide the company with approximately 67% of revenues and 73% of operating income as of the most recent quarter. The U.S. is clearly the dominant element of total company profit. CB Richard Ellis performs the role of intermediary in most cases and provides services such as strategic advice and execution to owners and potential occupiers of real estate in connection with the leasing, disposition, and acquisition of property. In this sense, it serves as a broker between buyer and seller. In 2005, the company reports that it advised on nearly 25,000 lease transactions with a value of \$29.9 billion. In the same year, real estate sales transactions assisted by the company totaled 6,200 and were worth an aggregate \$66.8 billion. The company is active in most large metropolitan areas such as Chicago, New York, Los Angeles, San Francisco, and Washington, D.C.

CB Richard Ellis also participates in the real estate capital markets providing debt placement and sales advisory services. It is the largest investment sales property advisor in the U.S., as measured by market share, with an estimated 18% of this particular business. U.S. investment sales increased by 70% in 2005. Mortgage origination volume increased by 33.7% to reach \$17.8 billion. These are truly exemplary growth rates undoubtedly the result of recent Federal Reserve monetary policy.

The company also serves as a valuation advisor, which includes: market value appraisals, litigation support, fairness opinions, and discounted cash flow analyses. In 2005, it completed 19,000 such assignments.

THE DEVIL'S ADVOCATE REPORT

Lastly, it offers outsourcing services, which the company believes to be a long-term growth trend and one from which it can successfully benefit. Many property owners do in fact outsource duties such as property management, marketing, leasing, accounting, project management, and portfolio management. In 2005, CB Richard Ellis managed approximately 522.1 million square feet of commercial space. The company is perhaps the largest provider of property management in the U.S.

Europe, Middle East, and Africa: The second largest component of operating profit, or nearly 24% thus far in 2006, are these geographic areas. The company is a leading service provider in the United Kingdom and France. In particular, it is active in the more heavily populated areas of each country, which would be London and Paris. Operations are also conducted in most parts of Europe as well as Dubai, Israel, Kenya, South Africa, Uganda and various other territories.

Asia Pacific: During the most recent quarter, the company's Asia Pacific segment provided 9% of total revenues and 1% of operating profit. Principal areas of Asian location include China, Hong Kong, Singapore, South Korea, and Japan. Affiliated offices are also maintained in India, the Philippines, Thailand, Indonesia, and Vietnam. The Pacific activities are confined to Australia and New Zealand.

Global Investment Management: CB Richard Ellis is also a real estate investment manager. This activity is conducted through the entity CB Richard Ellis Investors, LLC. It has been a great beneficiary of asset class diversification in which pension funds and other institutional investment firms have increased the relative portfolio weight of real estate. The company has three investment strategies: Managed Accounts, Strategic Partners, and Special Situations. Recently, assets under management were \$17.3 billion. The company believes that the reallocation of capital towards real estate is perhaps a permanent trend rather than a temporary occurrence. It is certainly possible that the increasing desire by institutional investors to reduce portfolio volatility through asset class diversification will continue. It must be remarked though that low interest rates provided investors with a low cost of borrowing that ultimately produced a high ROI since real estate values have increased greatly. Real estate price expansion then was also the result of increasing demand due to this diversification behavior. If the return from these investments were to decline as a result of higher interest rates, the rate at which capital has been deployed toward this asset class could be placed into question. This would be magnified if the underlying value of real estate also were to erode, which tends to occur in a cyclical industry.

Thus, this is a very dangerous area of expansion if the position is accepted that real estate is a cyclical business. As an asset manager, CB Richard Ellis is now vulnerable to valuation fluctuations that have occurred in

THE DEVIL'S ADVOCATE REPORT

other asset classes throughout history. Management fees can quickly disappear as the level of AUM declines. At the moment, however, this endeavor provides only 2% of operating profit.

Summary Remark: CB Richard Ellis has been a very capable and rather successful real estate service firm for many decades. It is now active in nearly all aspects of commercial real estate. In the United States, it has achieved substantial market share mostly through acquisitions and is one of the largest firms to provide intermediary services. As a result of this size, it is greatly exposed to virtually any disruption in the U.S. commercial real estate market.

Moreover, the company's earnings are highly co-dependent such that a small decline in, for example, mortgage originations could cause a cascading effect across several business lines. It should be mentioned that the company is somewhat protected from such co-dependence through the presence of recurring revenue. This is generally in the form of contracted property management fees and other annual services. It is not the position of this paper that profits will disappear entirely. Nevertheless, being exposed to the impact of higher interest rates, a very modest decline in revenues is all that is required to cause a disproportionate loss of earnings.

A Reversion to Mean Profit Viewed Through the Experience of Competitors

The current policy of the Federal Reserve has been to deflate the residential housing market through the use of higher interest rates. It is very unlikely that a shift in monetary policy will occur such that interest rates will decline. If one accepts the position that CB Richard Ellis operates in a cyclical industry and its earnings are therefore susceptible to such cyclicity, then the current level of profit could be unsustainable. Ultimately, return on equity and the profit margin should reflect a level that is consistent with normalized conditions.

CB Richard Ellis has two primary competitors, both of which are publicly traded. Their financial experience over the last decade provides historical precedent from which to evaluate the future earnings potential of CB Richard Ellis.

Both Trammell Crow and Jones Lang LaSalle are engaged in commercial property management and various other real estate brokerage services. Interestingly, both firms completed initial public offerings in 1997. In terms of size, the combined forecasted 2006 revenues for Trammell Crow and Jones Lang LaSalle are less than that of CB Richard Ellis. Nevertheless, their method of growth over the last several years has been through the use of strategic acquisitions. Their corporate transformation is quite similar to the transformation of CB Richard Ellis.

Over the course of the last decade, the average return on shareholders' equity that has been recorded was approximately 14%. The average profit margin was in the range of

THE DEVIL'S ADVOCATE REPORT

5% - 6%. It should be noted that certain adjustments were made in these calculations in order to provide a normalized state of operation. Due to the number of acquisitions completed by both firms, transaction-related charges and various related goodwill expenses were commonly recorded. Therefore, pre-tax income was adjusted to exclude such expenses. A corporate taxation rate of 35% was then applied to the adjusted income figure to derive normalized net income, such as it can be determined.

Let us begin with the historical level of ROE. Both firms have experienced some degree of cyclicity over the last decade. This occurred primarily during the 2001-2002 period. The last instance of recession to appear within the U.S. economy was of course during this time frame. In the case of Trammell Crow, the ROE declined from 22.2% in 2000 to 5.4% in 2002. Similarly, the ROE of Jones Lang LaSalle experienced a decline of 42%. The estimated return on equity of Jones Lang LaSalle in 2006 is 27.8%. Trammell Crow is forecasted to generate a ROE of 19.2%. Hence, the earnings of these firms appear to be rather cyclical.

Return on Equity*

Year	Trammell Crow (1)	Jones Lang LaSalle (2)
Est. 2006	19.2%	27.8%
2005	14.8%	19.3%
2004	11.5%	12.6%
2003	6.4%	8.4%
2002	5.4%	7.1%
2001	9.9%	12.9%
2000	22.2%	12.2%
1999	21.6%	10.0%
1998	24.2%	15.6%
1997	7.4%	14.1%
Avg.	14.3%	14.0%

*Net income from continuing operations

(1) Excludes charges in the following years:

1997: Non-recurring compensation charge of \$33.1m

2000: Goodwill impairment charge of \$40.3m

2001: Goodwill impairment, restructuring and other non-recurring charges of \$49.8m

(2) 1997-2001 - Employs adjusted earnings as calculated by the company to exclude non-recurring charges

The same method of analysis may be applied to the profit margin as well. During the aforementioned time period, the magnitude of net margin contraction was in the range of 35% - 55%. Trammell Crow produced a profit margin of 1.7% in 2002. The anticipated profit margin in 2006 is 7.2%. Given the historical data, real estate brokerage and related services is a low margin business. It is also one that is not immune to cyclicity. The

THE DEVIL'S ADVOCATE REPORT

current profit circumstance appears to be reaching the point at which earnings will ultimately collapse to a level of historical precedent. This should be of direct interest to the observer of the CB Richard Ellis shares.

Net Profit Margin*

Year	Trammell Crow (1)	Jones Lang LaSalle (2)	
Est. 2006	7.2%	9.1%	
2005	4.6%	7.5%	
2004	2.6%	5.5%	
2003	3.0%	3.8%	
2002	1.7%	3.0%	
2001	3.7%	4.6%	
2000	8.0%	4.4%	
1999	7.9%	4.0%	Cont'd
1998	9.0%	8.7%	
1997	3.3%	8.9%	
Avg.	5.1%	6.0%	

*Net income from continuing operations

(1) Excludes charges in the following years:

1997: Non-recurring compensation charge of \$33.1m

2000: Goodwill impairment charge of \$40.3m

2001: Goodwill impairment, restructuring and other non-recurring charges of \$49.8m

(2) 1997-2001 - Employs adjusted earnings as calculated by the company to exclude non-recurring charges

Valuation

The Consensus View

CB Richard Ellis is generally held in high regard by the analytical community. It is viewed as a growth company presumably immune to real estate cyclicity. In addition, analysts contend that the company is somewhat undervalued based on the current p/e ratio of 19x expected earnings. This is because the earnings multiples of Trammell Crow and Jones Lang LaSalle are 17.5x and 19.7x, respectively. The conventional viewpoint is that since CB Richard Ellis is substantially larger and thus possesses superior operating leverage over that of its competitors, it should be accorded a valuation to reflect this quality. In other words, the premium, such as one exists, is not presently adequate.

Of course, the current valuation is supported by profits that are expected to increase by 15% next year. If this can be achieved, the net margin in 2007 would be 8.9% and the ROE 39.7%. This would be the highest level of profitability ever recorded in the firm's

THE DEVIL'S ADVOCATE REPORT

recent history. The anticipated growth rate is likely the magnitude of loss that would be suffered by the short seller given the present valuation.

Alternative View

At the moment, the valuation reflects the belief that earnings will continue to expand at a double digit rate despite the challenge presented by prospective interest rate increases. The general view regarding real estate is observably negative. The future profits of homebuilding companies have been frequently revised downward this year. Thus, it is hard to imagine that the business of CB Richard Ellis will be immune to an overall decline in real estate activity.

The historical return on equity from 1997-2003 was 11.3%. This is based on adjusted earnings that have been calculated on a normalized basis (income excluding non-recurring charges taxed at 35%). Of course CB Richard Ellis was not a public company throughout this entire period. Nevertheless, in 2005, it was able to earn an ROE of 27%. The company appears to have experienced difficulties during the years of 2000 and 2001 as did its competition. The ROE was roughly 7% during this time. Interestingly, in 2000 return on equity was 14%. This was a year of substantial economic growth, a normalized level of interest rates, and steady demand for commercial real estate driven by technology expansion. Yet, the level of profitability was only marginally higher than the historical average.

Year	Net Income	Revenues	Shareholders' Equity	ROE
2005	\$217,341	\$2,910,641	\$793,685	27.38%
2004 (1)	100,687	2,365,096	559,948	17.98%
2003 (2)	36,020	1,630,074	332,929	10.82%
2002	18,727	1,170,277	251,341	7.45%
2001 (3)	17,426	562,828	252,523	6.90%
2000	33,388	1,323,604	235,339	14.19%
1999	23,282	1,213,039	209,737	11.10%
1998	24,557	1,034,503	190,842	12.87%
1997	24,397	730,224	157,771	15.46%
			1997-2003 Avg.	11.26%

(\$ in thousands)

(1) Excludes merger-related charges of \$25.6m and early debt retirement expense of \$21.1m; adjusted income taxed at 35%

(2) Excludes merger-related charges of \$36.8m, early debt retirement charge of \$13.5m, and amortization expense of \$46.1m; adjusted income taxed at 35%

(3) From 2/20-12/31

* Prior to 2001, CB Richard Ellis Group was known as CB Richard Ellis Services, Inc. and is referred to within the company's financial statements as the "predecessor company".

THE DEVIL'S ADVOCATE REPORT

If the earnings of CB Richard Ellis were to return to a normalized level perhaps the ROE would be 11%. Earnings per share would decline to \$0.41, which if capitalized even at a p/e ratio of 19x, the share price would be \$7.85. The loss of market value would likely be greater than 68% since some level of valuation degradation would almost certainly occur. In any case, it is apparent from this example that the present level of earnings could be unsustainable. Even if the ROE were to decline to the approximate 2005 level, which represented the bottom of Federal Reserve interest rate decreases, the short sale gain might be 28%. In the table below, it is demonstrated that a mild instance of profit disruption is all this is required to achieve a highly remunerative result. For instance, the company could generate a ROE of 20%, which is substantially higher than historical normalcy, and the shares could still experience a decline on the order of 42%.

Return on Equity	Earnings per share	At current p/e ratio	Decline from current price
30%	\$1.13	\$21.40	-13.52%
25%	\$0.94	\$17.84	-27.93%
20%	\$0.75	\$14.27	-42.35%
15%	\$0.56	\$10.70	-56.76%
10%	\$0.38	\$7.13	-71.17%

Some observers may argue that the company maintains operational flexibility due to its variable cost structure. Expenses paid to commissioned brokers are indeed the largest component of total costs. This primary cost of doing business is generally 50% of revenues and has varied little throughout the company's history. In 2002, for example, "cost of services" required 46.7% of revenues and 48.9% in the following year.

Let us view the following example. Suppose that in the present environment, the company were to generate \$1,000 of revenue in a given period. About \$500 would be paid to the company's brokers and recorded as a cost of service. There also exist certain fixed costs inherent to the business. These operating and administrative expenses include other salaried professionals' compensation as well as marketing and basic operational costs. Let us assume that this expense remains fixed at 10% of revenues although the actual percentage is closer to 35% - 40%. Therefore, the net proceeds to CB Richard Ellis would be \$400.

If revenue were to decline to \$800 in a subsequent period, the absolute amount of commission expense would decline. However, the actual payout ratio is unlikely to be proven variable. Qualified and talented sales personnel are required to support the business of real estate brokerage. A defection of employees due to inferior sales commissions could ultimately result in a more severe erosion of revenue than was otherwise inevitable. Hence, the commission expense in this example is likely to be approximately \$400. If the fixed costs still require \$100, then the net profit to the company would be \$300. This would be a profit decline of 25% in relation to the

THE DEVIL'S ADVOCATE REPORT

magnitude of revenue erosion, which was 20%. Alternatively expressed, it does not appear likely that the company will be able to withstand a fair amount of revenue pressure while maintaining the current level of earnings.

This logic may be applied to the CB Richard Ellis profit margin as well. During the period 1997-2003, the average net margin was approximately 2.5%. If the company is to achieve the present earnings forecasts, the profit margin will be 8.6% this year and 8.9% in 2007.

Year	Profit Margin*
2005	7.47%
2004	4.26%
2003	2.21%
2002	1.60%
2001	3.10%
2000	2.52%
1999	1.92%
1998	2.37%
1997	3.34%
1997-2003 Avg.	2.44%

*Margin is based on earnings as calculated previously

CB Richard Ellis used to be a highly leveraged firm. It has since retired a good portion of its acquisition-related debt, which created margin expansion. Therefore, the average level achieved in the past might be relatively low given this circumstance. However, current business conditions are possibly at the peak of the real estate cycle. It is hard to imagine that incremental margin improvement will be possible through further deleveraging.

The net margin in 2005 was 7.5%. If this is applied to the amount of revenues anticipated this year, or \$3.4 billion, earnings per share would decline to \$1.13. Irrespective of any valuation erosion, the share price would be \$21.44, which is 13% lower than the current price. A return to normalized conditions could be quite injurious to the profit margin, which is illustrated in the accompanying table.

THE DEVIL'S ADVOCATE REPORT

Profit Margin	Earnings Per Share	Share price at current p/e	Decline
7.5%	\$1.13	\$21.53	-13.00%
6.5%	\$0.98	\$18.66	-24.60%
5.5%	\$0.83	\$15.79	-36.20%
4.5%	\$0.68	\$12.92	-47.80%
3.5%	\$0.53	\$10.05	-59.40%

Investment Summary

The business of CB Richard Ellis has benefited from the previously low interest rates that has been present over the last few years. At the moment, the level of activity in real estate is nearly unprecedented. As a broker and provider of real estate services, the company has generated a very high growth rate and the present ROE, if achieved, is 34.6%. The current valuation reflects the sentiment that profits can continue to expand despite observable evidence that the real estate market is beginning to enter a period of decline due to actions taken by monetary officials worldwide. As a cyclical business, the earnings of CB Richard Ellis should ultimately decline to a level that is consistent with its historical experience. Given the current valuation and rising or at least higher interest rates, it is hard to imagine that the owner of these shares will receive a favorable outcome. Alternatively, only a modest degree of profit reversion is required to cause great harm to the share price. Accordingly, these shares are recommended for sale.

THE DEVIL'S ADVOCATE REPORT

CB RICHARD ELLIS GROUP, INC. CONSOLIDATED BALANCE SHEETS (Dollars in thousands, except share data)

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 253,089	\$ 449,289
Restricted cash	5,330	5,179
Receivables, less allowance for doubtful accounts of \$15,665 and \$15,646 at March 31, 2006 and December 31, 2005, respectively	427,399	483,175
Warehouse receivables	82,555	255,963
Prepaid expenses	52,986	36,402
Deferred tax assets, net	42,434	38,629
Other current assets	20,706	16,327
Total Current Assets	884,499	1,284,964
Property and equipment, net	152,915	137,655
Goodwill	886,374	880,179
Other intangible assets, net of accumulated amortization of \$35,554 and \$30,586 at March 31, 2006 and December 31, 2005, respectively	108,329	109,540
Deferred compensation assets	161,512	144,597
Investments in and advances to unconsolidated subsidiaries	100,391	106,153
Deferred tax assets, net	110,412	94,200
Other assets, net	81,347	58,384
Total Assets	<u>\$ 2,485,779</u>	<u>\$ 2,815,672</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 203,025	\$ 254,085
Compensation and employee benefits payable	204,818	189,984
Accrued bonus and profit sharing	156,977	324,973
Income taxes payable	16,316	65,918
Short-term borrowings:		
Warehouse lines of credit	82,555	255,963
Other	27,388	16,189
Total short-term borrowings	109,943	272,152
Current maturities of long-term debt	12,523	11,913
Other current liabilities	20,579	20,778
Total Current Liabilities	724,181	1,137,803
Long-Term Debt:		
11 $\frac{1}{4}$ % senior subordinated notes, net of unamortized discount of \$1,593 and \$1,648 at March 31, 2006 and December 31, 2005, respectively	163,076	163,021
Senior secured term loan	250,500	253,450
9 $\frac{1}{4}$ % senior notes	130,000	130,000
Other long-term debt	2,021	2,683
Total Long-Term Debt	545,597	549,156
Deferred compensation liability	183,464	172,871
Pension liability	41,621	41,194
Other liabilities	127,997	114,139
Total Liabilities	1,622,869	2,015,163
Commitments and contingencies	—	—
Minority interest	18,090	6,824
Stockholders' Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 74,260,535 and 73,784,582 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	743	738
Additional paid-in capital	561,878	550,128
Notes receivable from sale of stock	(101)	(101)
Accumulated earnings	320,425	283,515
Accumulated other comprehensive loss	(38,086)	(40,595)
Total Stockholders' Equity	844,859	793,685
Total Liabilities and Stockholders' Equity	<u>\$ 2,485,779</u>	<u>\$ 2,815,672</u>

THE DEVIL'S ADVOCATE REPORT

CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except share data)

	Three Months Ended March 31,	
	2006	2005
Revenue	\$ 680,091	\$ 538,266
Costs and expenses:		
Cost of services	340,445	268,046
Operating, administrative and other	265,161	223,221
Depreciation and amortization	14,930	10,370
Operating income	59,555	36,629
Equity income from unconsolidated subsidiaries	8,413	3,930
Minority interest expense	229	689
Interest income	3,590	2,445
Interest expense	13,935	13,598
Loss on extinguishment of debt	—	4,930
Income before provision for income taxes	57,394	23,787
Provision for income taxes	20,484	9,215
Net income	<u>\$ 36,910</u>	<u>\$ 14,572</u>
Basic income per share	<u>\$ 0.49</u>	<u>\$ 0.20</u>
Weighted average shares outstanding for basic income per share	<u>75,186,507</u>	<u>73,532,843</u>
Diluted income per share	<u>\$ 0.48</u>	<u>\$ 0.19</u>
Weighted average shares outstanding for diluted income per share	<u>77,649,588</u>	<u>76,184,725</u>