

CBRE GROUP, INC.  
Form 10-Q  
August 09, 2016  
Table of Contents

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

**OR**

.. **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)

**400 South Hope Street, 25th Floor**

**Los Angeles, California**  
(Address of principal executive offices)

**(213) 613-3333**

(Registrant's telephone number, including area code)

**94-3391143**  
(I.R.S. Employer

Identification Number)

**90071**  
(Zip Code)

**Not applicable**  
(Former name, former address and

former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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  No .

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

Large accelerated filer

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 .

The number of shares of Class A common stock outstanding at July 31, 2016 was 335,618,448.

**Table of Contents**

**FORM 10-Q**

**June 30, 2016**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b>Item 1. <u>Financial Statements</u></b>	
<u>Consolidated Balance Sheets at June 30, 2016 (Unaudited) and December 31, 2015</u>	3
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (Unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (Unaudited)</u>	6
<u>Consolidated Statement of Equity for the six months ended June 30, 2016 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	34
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	55
<b>Item 4. <u>Controls and Procedures</u></b>	56
<b><u>PART II OTHER INFORMATION</u></b>	
<b>Item 1. <u>Legal Proceedings</u></b>	56
<b>Item 1A. <u>Risk Factors</u></b>	57
<b>Item 6. <u>Exhibits</u></b>	57
<b><u>Signatures</u></b>	61

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CBRE GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except share data)**

	<b>June 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 431,768	\$ 540,403
Restricted cash	70,502	72,764
Receivables, less allowance for doubtful accounts of \$45,685 and \$46,606 at June 30, 2016 and December 31, 2015, respectively	2,373,157	2,471,740
Warehouse receivables	847,712	1,767,107
Income taxes receivable	92,838	59,331
Prepaid expenses	199,299	172,922
Other current assets	230,805	220,956
<b>Total Current Assets</b>	<b>4,246,081</b>	<b>5,305,223</b>
Property and equipment, net	533,575	529,823
Goodwill	3,061,024	3,085,997
Other intangible assets, net of accumulated amortization of \$676,848 and \$589,236 at June 30, 2016 and December 31, 2015, respectively	1,396,240	1,450,469
Investments in unconsolidated subsidiaries	226,742	217,943
Deferred tax assets, net	107,709	135,252
Other assets, net	351,201	293,236
<b>Total Assets</b>	<b>\$ 9,922,572</b>	<b>\$ 11,017,943</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,381,802	\$ 1,484,119
Compensation and employee benefits payable	728,021	705,070
Accrued bonus and profit sharing	502,766	866,894
Income taxes payable	46,530	82,194
Short-term borrowings:		
Warehouse lines of credit (which fund loans that U.S. Government Sponsored Entities have committed to purchase)	839,295	1,750,781
Revolving credit facility	156,000	

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Other	16	16
Total short-term borrowings	995,311	1,750,797
Current maturities of long-term debt	42,546	34,428
Other current liabilities	45,673	70,655
<b>Total Current Liabilities</b>	<b>3,742,649</b>	<b>4,994,157</b>
Long-term debt, net of current maturities	2,624,977	2,645,111
Deferred tax liabilities, net	85,034	100,361
Non-current tax liabilities	89,625	88,667
Other liabilities	476,517	430,577
<b>Total Liabilities</b>	<b>7,018,802</b>	<b>8,258,873</b>
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders' Equity:		
Class A common stock; \$0.01 par value; 525,000,000 shares authorized; 335,575,365 and 334,230,496 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	3,356	3,342
Additional paid-in capital	1,131,881	1,106,758
Accumulated earnings	2,292,062	2,088,227
Accumulated other comprehensive loss	(572,181)	(485,675)
<b>Total CBRE Group, Inc. Stockholders' Equity</b>	<b>2,855,118</b>	<b>2,712,652</b>
Non-controlling interests	48,652	46,418
<b>Total Equity</b>	<b>2,903,770</b>	<b>2,759,070</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,922,572</b>	<b>\$ 11,017,943</b>

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

Table of Contents**CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 3,207,537	\$ 2,390,506	\$ 6,054,271	\$ 4,443,009
Costs and expenses:				
Cost of services	2,254,233	1,487,974	4,267,846	2,778,751
Operating, administrative and other	680,442	610,158	1,323,808	1,141,933
Depreciation and amortization	90,268	70,605	177,262	140,451
Total costs and expenses	3,024,943	2,168,737	5,768,916	4,061,135
Gain on disposition of real estate		6,986	4,819	6,986
Operating income	182,594	228,755	290,174	388,860
Equity income from unconsolidated subsidiaries	34,929	6,693	92,230	22,144
Other income (loss)	3,882	(1,069)	7,097	18
Interest income	3,066	1,402	4,525	3,699
Interest expense	36,987	26,154	71,777	52,368
Write-off of financing costs on extinguished debt				2,685
Income before provision for income taxes	187,484	209,627	322,249	359,668
Provision for income taxes	64,039	76,474	114,164	133,377
Net income	123,445	133,153	208,085	226,291
Less: Net income attributable to non-controlling interests	1,777	8,124	4,250	8,325
Net income attributable to CBRE Group, Inc.	\$ 121,668	\$ 125,029	\$ 203,835	\$ 217,966
Basic income per share:				
Net income per share attributable to CBRE Group, Inc.	\$ 0.36	\$ 0.38	\$ 0.61	\$ 0.66
Weighted average shares outstanding for basic income per share	335,076,746	331,999,935	334,534,841	331,988,489

Diluted income per share:

Net income per share attributable to CBRE Group, Inc.	\$ 0.36	\$ 0.37	\$ 0.60	\$ 0.65
--	---------	---------	---------	---------

Weighted average shares outstanding for diluted income per share	338,080,641	336,154,524	337,797,887	335,926,626
---	-------------	-------------	-------------	-------------

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

Table of Contents**CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(Dollars in thousands)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 123,445	\$ 133,153	\$ 208,085	\$ 226,291
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(102,308)	57,508	(85,714)	(47,912)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax	1,733	1,809	3,476	3,604
Unrealized (losses) gains on interest rate swaps, net of tax	(1,206)	263	(4,115)	(2,511)
Unrealized holding gains on available for sale securities, net of tax	1,574	237	645	71
Other, net	(702)	16	(759)	18
Total other comprehensive (loss) income	(100,909)	59,833	(86,467)	(46,730)
Comprehensive income	22,536	192,986	121,618	179,561
Less: Comprehensive income attributable to non-controlling interests	1,694	8,141	4,289	8,309
Comprehensive income attributable to CBRE Group, Inc.	\$ 20,842	\$ 184,845	\$ 117,329	\$ 171,252

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



Table of Contents**CBRE GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollars in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 208,085	\$ 226,291
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	177,262	140,451
Amortization and write-off of financing costs on extinguished debt	5,204	7,264
Gain on sale of loans, servicing rights and other assets	(73,404)	(74,135)
Net realized and unrealized gain from investments	(7,097)	(18)
Equity income from unconsolidated subsidiaries	(92,230)	(22,144)
Provision for doubtful accounts	4,926	4,412
Compensation expense related to equity awards	28,554	29,132
Distribution of earnings from unconsolidated subsidiaries	14,544	13,174
Tenant concessions received	2,339	6,262
Purchase of trading securities	(57,985)	(42,653)
Proceeds from sale of trading securities	62,497	35,596
Decrease in receivables	72,160	113,769
Increase in prepaid expenses and other assets	(74,672)	(43,118)
Decrease in accounts payable and accrued expenses	(111,699)	(9,767)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(332,454)	(390,333)
Increase in income taxes receivable/payable	(53,095)	(14,125)
Increase (decrease) in other liabilities	21,122	(4,971)
Other operating activities, net	(4,074)	(17,278)
Net cash used in operating activities	(210,017)	(42,191)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(79,058)	(50,388)
Acquisition of Global Workplace Solutions (GWS), including net assets acquired, intangibles and goodwill	(21,900)	
Acquisition of businesses (other than GWS), including net assets acquired, intangibles and goodwill, net of cash acquired	(16,569)	(94,975)
Contributions to unconsolidated subsidiaries	(27,431)	(27,571)
Distributions from unconsolidated subsidiaries	93,912	27,269
Proceeds from the sale of servicing rights and other assets	15,071	12,615
Increase in restricted cash	(478)	(38,678)

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Purchase of available for sale securities	(23,984)	(23,453)
Proceeds from the sale of available for sale securities	22,061	24,563
Other investing activities, net	(1,142)	(219)
Net cash used in investing activities	(39,518)	(170,837)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from senior term loans		500,000
Repayment of senior term loans	(14,375)	(648,738)
Proceeds from revolving credit facility	1,356,000	831,000
Repayment of revolving credit facility	(1,200,000)	(835,512)
Proceeds from notes payable on real estate held for sale and under development	13,315	4,404
Repayment of notes payable on real estate held for sale and under development	(4,102)	
(Repayment of) proceeds from short-term borrowings and other loans, net	(447)	569
Shares repurchased for payment of taxes on equity awards	(5,112)	(5,113)
Proceeds from exercise of stock options	814	3,214
Non-controlling interest contributions	821	4,405
Non-controlling interest distributions	(3,517)	(10,637)
Payment of financing costs	(5,529)	(22,225)
Other financing activities, net	3,620	(1,836)
Net cash provided by (used in) financing activities	141,488	(180,469)
Effect of currency exchange rate changes on cash and cash equivalents	(588)	(10,965)

<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(108,635)	(404,462)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	540,403	740,884

<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 431,768	\$ 336,422
--	------------	------------

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid during the period for:		
Interest	\$ 63,420	\$ 43,123
Income taxes, net	\$ 160,353	\$ 148,011

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

Table of Contents**CBRE GROUP, INC.****CONSOLIDATED STATEMENT OF EQUITY****(Unaudited)****(Dollars in thousands)**

	<b>CBRE Group, Inc. Shareholders</b>					
	<b>Class A common stock</b>	<b>Additional paid-in capital</b>	<b>Accumulated earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Non-controlling interests</b>	<b>Total</b>
Balance at December 31, 2015	\$ 3,342	\$ 1,106,758	\$ 2,088,227	\$ (485,675)	\$ 46,418	\$ 2,759,070
Net income			203,835		4,250	208,085
Restricted stock awards vesting (including tax benefit)	13	1,332				1,345
Compensation expense for equity awards		28,554				28,554
Shares repurchased for payment of taxes on equity awards		(5,112)				(5,112)
Foreign currency translation (loss) gain				(85,753)	39	(85,714)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax				3,476		3,476
Unrealized losses on interest rate swaps, net of tax				(4,115)		(4,115)
Unrealized holding gains on available for sale securities, net of tax				645		645
Contributions from non-controlling interests					821	821
Distributions to non-controlling interests					(3,517)	(3,517)
Other	1	349		(759)	641	232
Balance at June 30, 2016	\$ 3,356	\$ 1,131,881	\$ 2,292,062	\$ (572,181)	\$ 48,652	\$ 2,903,770

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



**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Basis of Presentation**

Readers of this Quarterly Report on Form 10-Q (Quarterly Report) should refer to the audited financial statements and notes to 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 ), for the year ended December 31, 2015, which are included in our 2015 Annual Report on Form 10-K (2015 Annual Report), filed with the United States Securities and Exchange Commission (SEC) and also available on our website (www.cbre.com), since we have omitted from this Quarterly Report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to Note 2, Significant Accounting Policies, in the notes to consolidated financial statements in our 2015 Annual Report for further discussion of our significant accounting policies and estimates.

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to quarterly reports on 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 our opinion, 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 us 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 goodwill, intangibles and other long-lived assets, 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 our best judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjust 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. Certain reclassifications have been made to the 2015 financial statements to conform with the 2016 presentation.

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2016.

**2. New Accounting Pronouncements**

*Recent Accounting Pronouncements Pending Adoption*

The Financial Accounting Standards Board (FASB) has recently issued four Accounting Standards Updates (ASUs) related to revenue recognition, all of which become effective for the Company on January 1, 2018. The ASUs issued are: (1) in May 2014, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*; (2) in March 2016,

ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; (3) in April 2016, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; and (4) in May 2016, ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-scope Improvements and Practical Expedients*. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and will replace most existing revenue recognition guidance under GAAP. This ASU permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the

---

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

effect of this ASU on our ongoing financial reporting. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. We are evaluating the effect that ASU 2016-08 will have on our consolidated financial statements and related disclosures. ASU 2016-10 clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in ASU 2014-09. ASU 2016-12 clarifies guidance in certain narrow areas and adds some practical expedients. We do not believe the application of ASU 2016-10 and ASU 2016-12 will have a material impact on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU will significantly change the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is not permitted, except for the provisions related to the recognition of changes in fair value of financial liabilities when the fair value option is elected. We do not believe the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize most leases on-balance sheet and mandates a modified retrospective transition method for all entities. This ASU is effective for annual periods in fiscal years beginning after December 15, 2018. We are evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This ASU clarifies that a change in one of the parties to a derivative contract (through novation) that is part of a hedge accounting relationship does not, by itself, require designation of that relationship, as long as all other hedge accounting criteria continue to be met. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016, with early adoption permitted. We do not believe the adoption of ASU 2016-05 will have a material impact on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting*. This ASU eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. ASU 2016-07 should be applied prospectively upon its effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. This ASU is effective for all entities for interim and annual periods in fiscal years beginning after December 15, 2016, with early application permitted. We do not believe the application of ASU 2016-07 will have a material impact on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU is intended to improve financial reporting



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

**3. Acquisition of Global Workplace Solutions**

On September 1, 2015, CBRE, Inc., our wholly-owned subsidiary, pursuant to a Stock and Asset Purchase Agreement with Johnson Controls, Inc. (JCI), acquired JCI's Global Workplace Solutions business (we refer to this transaction as the GWS Acquisition). The acquired GWS business is a market-leading provider of integrated facilities management solutions for major occupiers of commercial real estate and has significant operations around the world. The purchase price was \$1.475 billion, paid in cash, with adjustments for working capital and other items.

The preliminary purchase accounting adjustments related to the GWS Acquisition have been recorded in the accompanying consolidated financial statements. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. The goodwill arising from the GWS Acquisition consists largely of the synergies and economies of scale expected from combining the operations acquired from GWS with our business. Of the \$852 million of goodwill recorded in connection with the GWS Acquisition, approximately \$445 million is deductible for tax purposes. Given the complexity of the transaction, the calculation of the fair value of certain assets and liabilities acquired, including intangible assets and income tax items, is still preliminary. As a result, the assignment of goodwill to our reporting units has not been completed. We expect to complete the purchase price allocation and the assignment of goodwill to our reporting units as soon as practicable, but no later than one year from the acquisition date.

Unaudited pro forma results, assuming the GWS Acquisition had occurred as of January 1, 2015 for purposes of the 2015 pro forma disclosures, are presented below. They include certain adjustments for the three and six months ended June 30, 2015, including \$16.9 million and \$33.8 million, respectively, of increased amortization expense as a result of intangible assets acquired in the GWS Acquisition, \$9.0 million and \$19.3 million, respectively, of additional interest expense as a result of debt incurred to finance the GWS Acquisition, the removal of \$4.8 million and \$8.0 million, respectively, of direct costs incurred by us related to the GWS Acquisition, net of the tax impact during the period of these pro forma adjustments. These 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 GWS Acquisition occurred on January 1, 2015 and may not be indicative of future operating results (dollars in thousands, except share data):

	<b>Three Months Ended June 30, 2015</b>	<b>Six Months Ended June 30, 2015</b>
Revenue	\$ 3,136,506	\$ 6,062,009

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Operating income	\$	237,646	\$	409,049
Net income attributable to CBRE Group, Inc.	\$	125,896	\$	220,665
Basic income per share:				
Net income per share attributable to CBRE Group, Inc.	\$	0.38	\$	0.66
Weighted average shares outstanding for basic income per share		331,999,935		331,988,489
Diluted income per share:				
Net income per share attributable to CBRE Group, Inc.	\$	0.37	\$	0.66
Weighted average shares outstanding for diluted income per share		336,154,524		335,926,626

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**4. Variable Interest Entities (VIEs)**

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

As of June 30, 2016 and December 31, 2015, our maximum exposure to loss related to the VIEs which are not consolidated was as follows (dollars in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Investments in unconsolidated subsidiaries	\$ 21,898	\$ 21,457
Other assets, current	6,407	3,723
Co-investment commitments	176	180
Maximum exposure to loss	\$ 28,481	\$ 25,360

**5. Fair Value Measurements**

The *Fair Value Measurements and Disclosures* topic (Topic 820) of the FASB Accounting Standards Codification (ASC) 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 or out of Level 1 and Level 2 during the three and six months ended June 30, 2016 and 2015. There have been no significant changes to the valuation techniques and inputs used to develop the recurring fair value measurements from those disclosed in our 2015 Annual Report.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables present the fair value of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	As of June 30, 2016			Total
	Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available for sale securities:				
Debt securities:				
U.S. treasury securities	\$ 6,752	\$	\$	\$ 6,752
Debt securities issued by U.S. federal agencies		5,104		5,104
Corporate debt securities		18,957		18,957
Asset-backed securities		2,890		2,890
Collateralized mortgage obligations		1,297		1,297
Total debt securities	6,752	28,248		35,000
Equity securities	22,968			22,968
Total available for sale securities	29,720	28,248		57,968
Trading securities	68,471			68,471
Warehouse receivables		847,712		847,712
Foreign currency exchange forward contracts		12,586		12,586
Total assets at fair value	\$ 98,191	\$ 888,546	\$	\$ 986,737
<b>Liabilities</b>				
Interest rate swaps	\$	\$ 22,840	\$	\$ 22,840
Securities sold, not yet purchased	3,084			3,084
Foreign currency exchange forward contracts		5,429		5,429
Total liabilities at fair value	\$ 3,084	\$ 28,269	\$	\$ 31,353

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	As of December 31, 2015			Total
	Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available for sale securities:				
Debt securities:				
U.S. treasury securities	\$ 7,350	\$	\$	\$ 7,350
Debt securities issued by U.S. federal agencies		3,360		3,360
Corporate debt securities		18,085		18,085
Asset-backed securities		1,897		1,897
Collateralized mortgage obligations		1,752		1,752
Total debt securities	7,350	25,094		32,444
Equity securities	24,118			24,118
Total available for sale securities	31,468	25,094		56,562
Trading securities	64,124			64,124
Warehouse receivables		1,767,107		1,767,107
Loan commitments			1,680	1,680
Foreign currency exchange forward contracts		9,236		9,236
Total assets at fair value	\$ 95,592	\$ 1,801,437	\$ 1,680	\$ 1,898,709
<b>Liabilities</b>				
Interest rate swaps	\$	\$ 21,502	\$	\$ 21,502
Securities sold, not yet purchased	4,436			4,436
Foreign currency exchange forward contracts		1,008		1,008
Total liabilities at fair value	\$ 4,436	\$ 22,510	\$	\$ 26,946

The following table provides additional information about fair value measurements for the Level 3 assets for the six months ended June 30, 2016 (dollars in thousands):

Balance, December 31, 2015	\$ 1,680
Net gains included in earnings	
Settlements	(1,680)
Transfers into (out of) Level 3	

Balance, June 30, 2016	\$
------------------------	----

There were no significant non-recurring fair value measurements recorded during the three and six months ended June 30, 2016 and 2015.

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 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.

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

*Warehouse Receivables* These balances are carried at fair value based on market prices at the balance sheet date.

*Trading and Available for Sale Securities* These investments are carried at their fair value.

*Foreign Currency Exchange Forward Contracts* These assets and liabilities are carried at their fair value as calculated by using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative.

*Securities Sold, not yet Purchased* These liabilities are carried at their fair value.

*Short-Term Borrowings* The majority of this balance represents outstanding amounts under our warehouse lines of credit of our wholly-owned subsidiary, CBRE Capital Markets, Inc. (CBRE Capital Markets), and our revolving credit facility. Due to the short-term nature and variable interest rates of these instruments, fair value approximates carrying value (see Note 7).

*Senior 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 term loans was approximately \$864.4 million and \$878.6 million at June 30, 2016 and December 31, 2015, respectively. Their actual carrying value, net of unamortized debt issuance costs, totaled \$864.8 million and \$877.9 million at June 30, 2016 and December 31, 2015, respectively (see Note 7).

*Interest Rate Swaps* These liabilities are carried at their fair value as calculated by using widely-accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative.

*Senior Notes* Based on dealers' quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair values of our 5.00% senior notes, 4.875% senior notes and 5.25% senior notes were \$832.0 million, \$620.5 million and \$453.7 million, respectively, at June 30, 2016 and \$802.6 million, \$598.8 million and \$430.4 million, respectively, at December 31, 2015. The actual carrying value of our 5.00% senior notes, 4.875% senior notes and 5.25% senior notes, net of unamortized debt issuance costs, totaled \$789.8 million, \$590.8 million and \$422.1 million, respectively, at June 30, 2016 and \$789.1 million, \$590.5 million and \$422.0 million, respectively, at December 31, 2015.





**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**6. Investments in Unconsolidated Subsidiaries**

Investments in unconsolidated subsidiaries are accounted for under the equity method of accounting. Our investment ownership percentages in equity method investments vary, generally ranging up to 5.0% in our Global Investment Management segment, up to 10.0% in our Development Services segment, and up to 50% in our other business segments.

Combined condensed financial information for the entities actually accounted for using the equity method is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Global Investment Management</b>				
Revenue	\$ 252,301	\$ 251,172	\$ 484,904	\$ 506,899
Operating income (loss)	\$ 61,755	\$ (109,353)	\$ 62,378	\$ (80,726)
Net income (loss)	\$ 87,747	\$ (188,240)	\$ 65,872	\$ (231,196)
<b>Development Services</b>				
Revenue	\$ 18,418	\$ 10,316	\$ 31,076	\$ 19,575
Operating income	\$ 37,199	\$ 2,301	\$ 158,109	\$ 41,348
Net income (loss)	\$ 31,631	\$ (149)	\$ 150,092	\$ 37,487
<b>Other</b>				
Revenue	\$ 38,263	\$ 45,979	\$ 66,514	\$ 73,566
Operating income	\$ 8,106	\$ 11,105	\$ 14,288	\$ 14,631
Net income	\$ 8,176	\$ 11,264	\$ 14,370	\$ 14,901
<b>Total</b>				
Revenue	\$ 308,982	\$ 307,467	\$ 582,494	\$ 600,040
Operating income (loss)	\$ 107,060	\$ (95,947)	\$ 234,775	\$ (24,747)
Net income (loss)	\$ 127,554	\$ (177,125)	\$ 230,334	\$ (178,808)

**7. Long-Term Debt and Short-Term Borrowings****Long-Term Debt**

Long-term debt consists of the following (dollars in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Senior term loans, with interest ranging from 1.39% to 2.06%, due quarterly through 2022	\$ 873,750	\$ 888,125
5.00% senior notes due in 2023	800,000	800,000
4.875% senior notes due in 2026, net of unamortized discount	595,738	595,568
5.25% senior notes due in 2025, net of unamortized premium	426,591	426,682
Other	47	63
Total long-term debt	2,696,126	2,710,438
Less: current maturities of long-term debt	(42,546)	(34,428)
Less: unamortized debt issuance costs	(28,603)	(30,899)
Total long-term debt, net of current maturities	\$ 2,624,977	\$ 2,645,111

---

**Table of Contents**

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On January 9, 2015, CBRE Services, Inc. (CBRE), our wholly-owned subsidiary, entered into an amended and restated credit agreement (the 2015 Credit Agreement) with a syndicate of banks jointly led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and Credit Suisse AG. On March 21, 2016, we executed an amendment to the 2015 Credit Agreement which, among other things, extended the maturity on our revolving credit facility to March 2021 and increased the borrowing capacity under our revolving credit facility by \$200.0 million.

The 2015 Credit Agreement is an unsecured credit facility that is jointly and severally guaranteed by us and substantially all of our material domestic subsidiaries. As of June 30, 2016, the 2015 Credit Agreement provided for the following: (1) a \$2.8 billion revolving credit facility, which includes the capacity to obtain letters of credit and swingline loans and matures on March 21, 2021; (2) a \$500.0 million tranche A term loan facility requiring quarterly principal payments, which began on June 30, 2015 and continue through maturity on January 9, 2020; (3) a \$270.0 million tranche B-1 term loan facility requiring quarterly principal payments, which began on December 31, 2015 and continue through maturity on September 3, 2020; and (4) a \$130.0 million tranche B-2 term loan facility requiring quarterly principal payments, which began on December 31, 2015 and continue through maturity on September 3, 2022.

Our 2015 Credit Agreement and the indentures governing our 5.00% senior notes, 4.875% senior notes and 5.25% senior notes contain 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 2015 Credit Agreement also requires us to maintain a minimum coverage ratio of EBITDA (as defined in the 2015 Credit Agreement) to total interest expense of 2.00x and a maximum leverage ratio of total debt less available cash to EBITDA (as defined in the 2015 Credit Agreement) of 4.25x as of the end of each fiscal quarter. On this basis, our coverage ratio of EBITDA to total interest expense was 12.15x for the trailing twelve months ended June 30, 2016, and our leverage ratio of total debt less available cash to EBITDA was 1.61x as of June 30, 2016.

***Short-Term Borrowings***

*Revolving Credit Facility*

As of June 30, 2016, we had \$156.0 million of revolving credit facility principal outstanding under the 2015 Credit Agreement with a weighted average annual interest rate of 2.2% and which was included in short-term borrowings in the accompanying consolidated balance sheets. As of June 30, 2016, letters of credit totaling \$2.0 million were outstanding under the revolving credit facility. These letters of credit, which reduce the amount we may borrow under the revolving credit facility, were primarily issued in the ordinary course of business. As of December 31, 2015, no amounts were outstanding under our revolving credit facility other than letters of credit totaling \$2.0 million.

*Warehouse Lines of Credit*

CBRE Capital Markets has warehouse lines of credit with third-party lenders for the purpose of funding mortgage loans that will be resold, and a funding arrangement with Federal National Mortgage Association (Fannie Mae) for the purpose of selling a percentage of certain closed multifamily loans to Fannie Mae. These warehouse lines are recourse only to CBRE Capital Markets and are secured by our related warehouse receivables.

During the six months ended June 30, 2016, we had a maximum of \$1.9 billion of warehouse lines of credit principal outstanding. As of June 30, 2016 and December 31, 2015, we had \$839.3 million and \$1.8 billion, respectively, of warehouse lines of credit principal outstanding, which are included in short-term borrowings in

---

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

the accompanying consolidated balance sheets. Additionally, we had \$847.7 million and \$1.8 billion of mortgage loans held for sale (warehouse receivables) as of June 30, 2016 and December 31, 2015, respectively, included in the accompanying consolidated balance sheets, which substantially represented mortgage loans funded through the lines of credit that were either under commitment to be purchased by Federal Home Loan Mortgage Corporation (Freddie Mac) or had confirmed forward trade commitments for the issuance and purchase of Fannie Mae or Government National Mortgage Association (Ginnie Mae) mortgage backed securities that will be secured by the underlying loans.

**8. 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. We believe that any losses in excess of the amounts accrued therefor as liabilities on our financial statements are unlikely to be significant, but 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 materially in excess of what we anticipated.

In January 2008, CBRE Multifamily Capital, Inc. (CBRE MCI), a wholly-owned subsidiary of CBRE Capital Markets, entered into an agreement with Fannie Mae under Fannie Mae's Delegated Underwriting and Servicing 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 \$13.5 billion at June 30, 2016. CBRE MCI, under its agreement with Fannie Mae, must post cash reserves or other acceptable collateral under formulas established by Fannie Mae to provide for sufficient capital in the event losses occur. As of June 30, 2016 and December 31, 2015, CBRE MCI had a \$42.0 million and \$35.0 million, respectively, letter of credit under this reserve arrangement, and had provided approximately \$23.4 million and \$21.8 million, respectively, of loan loss accruals. Fannie Mae's recourse under the DUS Program is limited to the assets of CBRE MCI, which assets totaled approximately \$300.6 million (including \$130.7 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at June 30, 2016.

We had outstanding letters of credit totaling \$48.0 million as of June 30, 2016, 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. CBRE MCI's letter of credit totaling \$42.0 million as of June 30, 2016 referred to in the preceding paragraph represented the majority of the \$48.0 million outstanding letters of credit as of such date. The remaining letters of credit are primarily executed by us in the ordinary course of business and expire at varying dates through June 2017.

We had guarantees totaling \$55.0 million as of June 30, 2016, 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 excluding guarantees related to operating leases. The \$55.0 million primarily

represents guarantees executed by us in the ordinary course of business, including various guarantees of management and vendor contracts in our operations overseas, which expire at the end of each of the respective agreements.

In addition, as of June 30, 2016, we had issued numerous non-recourse carveout, completion and budget guarantees relating to development projects for the benefit of third parties. These guarantees are commonplace in our industry and are made by us in the ordinary course of our Development Services business. Non-recourse

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

carveout guarantees generally require that our project-entity borrower not commit specified improper acts, with us potentially liable for all or a portion of such entity's indebtedness or other damages suffered by the lender if those acts occur. Completion and budget guarantees generally require us to complete construction of the relevant project within a specified timeframe and/or within a specified budget, with us potentially being liable for costs to complete in excess of such timeframe or budget. However, we generally use guaranteed maximum price contracts with reputable, bondable 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.

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 generally total up to 2.0% of the equity in a particular fund. As of June 30, 2016, we had aggregate commitments of \$36.5 million to fund future co-investments.

Additionally, an important part of our Development Services business strategy is to invest in unconsolidated real estate subsidiaries as a principal (in most cases co-investing with our clients). As of June 30, 2016, we had committed to fund \$28.6 million of additional capital to these unconsolidated subsidiaries.

**9. Income Per Share Information**

The calculations of basic and diluted income per share attributable to CBRE Group, Inc. shareholders are as follows (dollars in thousands, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Basic Income Per Share</b>				
Net income attributable to CBRE Group, Inc. shareholders	\$ 121,668	\$ 125,029	\$ 203,835	\$ 217,966
Weighted average shares outstanding for basic income per share	335,076,746	331,999,935	334,534,841	331,988,489
Basic income per share attributable to CBRE Group, Inc. shareholders	\$ 0.36	\$ 0.38	\$ 0.61	\$ 0.66
<b>Diluted Income Per Share</b>				
Net income attributable to CBRE Group, Inc. shareholders	\$ 121,668	\$ 125,029	\$ 203,835	\$ 217,966



Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Weighted average shares outstanding for basic income per share	335,076,746	331,999,935	334,534,841	331,988,489
Dilutive effect of contingently issuable shares	2,976,165	3,913,275	3,226,936	3,678,940
Dilutive effect of stock options	27,730	241,314	36,110	259,197
Weighted average shares outstanding for diluted income per share	338,080,641	336,154,524	337,797,887	335,926,626
Diluted income per share attributable to CBRE Group, Inc. shareholders	\$ 0.36	\$ 0.37	\$ 0.60	\$ 0.65

For the three and six months ended June 30, 2016, 1,536,189 and 1,553,158, respectively, of contingently issuable shares were excluded from the computation of diluted income per share because their inclusion would have had an anti-dilutive effect.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the three and six months ended June 30, 2015, 47,082 of contingently issuable shares were excluded from the computation of diluted income per share because their inclusion would have had an anti-dilutive effect.

**10. Segments**

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

The Americas segment is our largest segment of operations and provides a comprehensive range of services throughout the U.S. and in the largest regions of Canada and key markets in Latin America. The primary services offered consist of the following: property sales, property leasing, mortgage services, appraisal and valuation, property management and occupier outsourcing services.

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

Our Global Investment Management business provides investment management services to clients seeking to generate returns and diversification through direct and indirect investments in real estate in North America, Europe and Asia Pacific.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (1)	2016	2015 (1)
<b>Revenue</b>				
Americas	\$ 1,775,756	\$ 1,434,489	\$ 3,359,315	\$ 2,662,105
EMEA	961,835	585,714	1,809,333	1,079,738
Asia Pacific	356,318	261,828	664,842	470,194
Global Investment Management	95,737	94,053	186,117	204,277
Development Services	17,891	14,422	34,664	26,695
<b>Total revenue</b>	<b>\$ 3,207,537</b>	<b>\$ 2,390,506</b>	<b>\$ 6,054,271</b>	<b>\$ 4,443,009</b>

**EBITDA**

Americas	\$ 208,407	\$ 213,956	\$ 381,745	\$ 384,018
EMEA	36,702	39,479	51,916	57,662
Asia Pacific	20,275	29,724	30,929	44,186
Global Investment Management	25,987	12,948	47,523	50,993
Development Services	18,525	753	50,400	6,289
Total EBITDA	\$ 309,896	\$ 296,860	\$ 562,513	\$ 543,148

- (1) During 2016, we changed our methodology for allocating certain costs to our reporting segments, including stock compensation, currency hedging and certain intercompany transactions. Prior year amounts have been reclassified to conform with the current year presentation. Such changes had no impact on our consolidated results.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

EBITDA represents earnings before net interest expense, write-off of financing costs on extinguished debt, income taxes, depreciation and amortization. EBITDA is not a recognized measurement under GAAP and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies.

We generally use EBITDA to evaluate operating performance and for other discretionary purposes, and we believe that this measure provides a more complete understanding of ongoing operations and enhances comparability of current results to prior periods. We further believe that investors may find EBITDA useful in evaluating our operating performance compared to that of other companies in our industry because EBITDA calculations generally eliminate the effects of acquisitions, which would include impairment charges of goodwill and intangibles created from acquisitions, the effects of financings and income taxes and the accounting effects of capital spending. EBITDA may vary for different companies for reasons unrelated to overall operating performance.

EBITDA is not intended to be a measure of free cash flow for our discretionary use because it does not consider certain cash requirements such as tax and debt service payments. EBITDA may also differ from the amount calculated under similarly titled definitions in our debt instruments, which amounts are further adjusted to reflect certain other cash and non-cash charges and are used by us to determine compliance with financial covenants therein and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

Net interest expense and write-off of financing costs on extinguished debt have been expensed in the segment where incurred. Provision for income taxes has been allocated among our segments by using applicable U.S. and foreign effective tax rates. EBITDA for our segments is calculated as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (1)	2016	2015 (1)
<b>Americas</b>				
Net income attributable to CBRE Group, Inc.	\$ 90,464	\$ 111,653	\$ 161,982	\$ 194,788
Add:				
Depreciation and amortization	63,197	44,591	123,797	87,541
Interest expense, net	22,165	4,247	43,091	7,793
Write-off of financing costs on extinguished debt				2,685
Royalty and management service income	(13,389)	(1,881)	(20,157)	(6,965)
Provision for income taxes	45,970	55,346	73,032	98,176
<b>EBITDA</b>	<b>\$ 208,407</b>	<b>\$ 213,956</b>	<b>\$ 381,745</b>	<b>\$ 384,018</b>

**EMEA**

Net income (loss) attributable to CBRE Group, Inc.	\$ 7,889	\$ 10,674	\$ (4,246)	\$ 386
Add:				
Depreciation and amortization	16,257	14,607	31,262	29,399
Interest expense, net	4,326	11,375	7,838	22,822
Royalty and management service expense (income)	4,303	(4,051)	3,677	(2,861)
Provision for income taxes	3,927	6,874	13,385	7,916
<b>EBITDA</b>	<b>\$ 36,702</b>	<b>\$ 39,479</b>	<b>\$ 51,916</b>	<b>\$ 57,662</b>

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (1)	2016	2015 (1)
<b>Asia Pacific</b>				
Net income attributable to CBRE Group, Inc.	\$ 5,062	\$ 9,192	\$ 2,492	\$ 12,978
Add:				
Depreciation and amortization	4,297	3,783	8,478	7,629
Interest (income) expense, net	(873)	991	42	1,889
Royalty and management service expense	8,094	4,913	14,352	7,761
Provision for income taxes	3,695	10,845	5,565	13,929
EBITDA	\$ 20,275	\$ 29,724	\$ 30,929	\$ 44,186
<b>Global Investment Management</b>				
Net income (loss) attributable to CBRE Group, Inc.	\$ 8,181	\$ (6,044)	\$ 15,465	\$ 7,829
Add:				
Depreciation and amortization	5,817	7,061	12,437	14,672
Interest expense, net	7,816	7,818	15,513	15,502
Royalty and management service expense	992	1,019	2,128	2,065
Provision for income taxes	3,181	3,094	1,980	10,925
EBITDA	\$ 25,987	\$ 12,948	\$ 47,523	\$ 50,993
<b>Development Services</b>				
Net income (loss) attributable to CBRE Group, Inc.	\$ 10,072	\$ (446)	\$ 28,142	\$ 1,985
Add:				
Depreciation and amortization	700	563	1,288	1,210
Interest expense, net	487	321	768	663
Provision for income taxes	7,266	315	20,202	2,431
EBITDA	\$ 18,525	\$ 753	\$ 50,400	\$ 6,289

- (1) During 2016, we changed our methodology for allocating certain costs to our reporting segments, including stock compensation, currency hedging and certain intercompany transactions. Prior year amounts have been reclassified to conform with the current year presentation. Such changes had no impact on our consolidated results.

**11. Guarantor and Nonguarantor Financial Statements**

The following condensed consolidating financial information includes condensed consolidating balance sheets as of June 30, 2016 and December 31, 2015 and condensed consolidating statements of operations, condensed consolidating statements of comprehensive income (loss) and condensed consolidating statements of cash flows for the three and six months ended June 30, 2016 and 2015 of:

CBRE Group, Inc., as the parent; CBRE, as the subsidiary issuer; the guarantor subsidiaries; the nonguarantor subsidiaries;

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

CBRE Group, Inc., on a consolidated basis.

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

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING BALANCE SHEET**

AS OF JUNE 30, 2016

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 4	\$ 6,162	\$ 66,836	\$ 358,766	\$	\$ 431,768
Restricted cash			3,171	67,331		70,502
Receivables, net			948,443	1,424,714		2,373,157
Warehouse receivables (1)			710,043	137,669		847,712
Income taxes receivable	840	621	34,483	56,894		92,838
Prepaid expenses			77,491	121,808		199,299
Other current assets		12,536	79,753	138,516		230,805
<b>Total Current Assets</b>	<b>844</b>	<b>19,319</b>	<b>1,920,220</b>	<b>2,305,698</b>		<b>4,246,081</b>
Property and equipment, net			383,943	149,632		533,575
Goodwill			1,653,048	1,407,976		3,061,024
Other intangible assets, net			814,599	581,641		1,396,240
Investments in unconsolidated subsidiaries			189,886	36,856		226,742
Investments in consolidated subsidiaries	3,962,426	4,083,904	2,317,953		(10,364,283)	
Intercompany loan receivable		2,716,908	700,000		(3,416,908)	
Deferred tax assets, net			48,026	99,156	(39,473)	107,709
Other assets, net		24,825	198,143	128,233		351,201
<b>Total Assets</b>	<b>\$ 3,963,270</b>	<b>\$ 6,844,956</b>	<b>\$ 8,225,818</b>	<b>\$ 4,709,192</b>	<b>\$ (13,820,664)</b>	<b>\$ 9,922,572</b>
<b>LIABILITIES AND EQUITY</b>						
Current Liabilities:						
Accounts payable and accrued expenses	\$	\$ 30,159	\$ 387,073	\$ 964,570	\$	\$ 1,381,802



Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Compensation and employee benefits payable	626	428,488	298,907			728,021
Accrued bonus and profit sharing		271,847	230,919			502,766
Income taxes payable			46,530			46,530
Short-term borrowings:						
Warehouse lines of credit (which fund loans that U.S. Government Sponsored Entities have committed to purchase) (1)		704,868	134,427			839,295
Revolving credit facility	156,000					156,000
Other		16				16
Total short-term borrowings	156,000	704,884	134,427			995,311
Current maturities of long-term debt	42,500		46			42,546
Other current liabilities	5,429	30,485	9,759			45,673
Total Current Liabilities	234,714	1,822,777	1,685,158			3,742,649
Long-Term Debt, net:						
Long-term debt, net	2,624,976		1			2,624,977
Intercompany loan payable	1,108,152		1,982,397	326,359	(3,416,908)	
Total Long-Term Debt, net	1,108,152	2,624,976	1,982,397	326,360	(3,416,908)	2,624,977
Deferred tax liabilities, net				124,507	(39,473)	85,034
Non-current tax liabilities			89,208	417		89,625
Other liabilities	22,840	247,532	206,145			476,517
Total Liabilities	1,108,152	2,882,530	4,141,914	2,342,587	(3,456,381)	7,018,802
Commitments and contingencies						
Equity:						
CBRE Group, Inc. Stockholders' Equity	2,855,118	3,962,426	4,083,904	2,317,953	(10,364,283)	2,855,118
Non-controlling interests				48,652		48,652
Total Equity	2,855,118	3,962,426	4,083,904	2,366,605	(10,364,283)	2,903,770
Total Liabilities and Equity	\$ 3,963,270	\$ 6,844,956	\$ 8,225,818	\$ 4,709,192	\$ (13,820,664)	\$ 9,922,572

(1) Although CBRE Capital Markets is included among our domestic subsidiaries that jointly and severally guarantee our 5.00% senior notes, 4.875% senior notes, 5.25% senior notes and our 2015 Credit Agreement, a substantial majority of warehouse receivables funded under JP Morgan Chase Bank, N.A. (JP Morgan), TD Bank, N.A. (TD Bank), Capital One, N.A. (Capital One), Bank of America (BofA), and Fannie Mae ASAP lines of credit are pledged to JP Morgan, TD Bank, Capital One, BofA and Fannie Mae, and accordingly, are not included as collateral for these notes or our other outstanding debt.



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING BALANCE SHEET**

AS OF DECEMBER 31, 2015

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 5	\$ 8,479	\$ 147,410	\$ 384,509	\$	\$ 540,403
Restricted cash			6,421	66,343		72,764
Receivables, net			860,776	1,610,964		2,471,740
Warehouse receivables (1)			1,397,094	370,013		1,767,107
Income taxes receivable	25,912	6,365	10,552	48,779	(32,277)	59,331
Prepaid expenses			77,109	95,813		172,922
Other current assets		9,236	62,386	149,334		220,956
<b>Total Current Assets</b>	<b>25,917</b>	<b>24,080</b>	<b>2,561,748</b>	<b>2,725,755</b>	<b>(32,277)</b>	<b>5,305,223</b>
Property and equipment, net			382,897	146,926		529,823
Goodwill			1,626,618	1,459,379		3,085,997
Other intangible assets, net			844,611	605,858		1,450,469
Investments in unconsolidated subsidiaries			184,508	33,435		217,943
Investments in consolidated subsidiaries	3,699,642	3,796,841	2,360,544		(9,857,027)	
Intercompany loan receivable		2,590,949	700,000		(3,290,949)	
Deferred tax assets, net			68,971	105,754	(39,473)	135,252
Other assets, net		22,055	176,835	94,346		293,236
<b>Total Assets</b>	<b>\$ 3,725,559</b>	<b>\$ 6,433,925</b>	<b>\$ 8,906,732</b>	<b>\$ 5,171,453</b>	<b>\$ (13,219,726)</b>	<b>\$ 11,017,943</b>
<b>LIABILITIES AND EQUITY</b>						
Current Liabilities:						
Accounts payable and accrued expenses	\$	\$ 31,616	\$ 395,509	\$ 1,056,994	\$	\$ 1,484,119

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Compensation and employee benefits payable		626	388,251	316,193		705,070
Accrued bonus and profit sharing			479,106	387,788		866,894
Income taxes payable			69,121	45,350	(32,277)	82,194
Short-term borrowings:						
Warehouse lines of credit (which fund loans that U.S. Government Sponsored Entities have committed to purchase) (1)			1,388,033	362,748		1,750,781
Other			16			16
Total short-term borrowings			1,388,049	362,748		1,750,797
Current maturities of long-term debt		34,375		53		34,428
Other current liabilities		1,063	31,474	38,118		70,655
Total Current Liabilities		67,680	2,751,510	2,207,244	(32,277)	4,994,157
Long-Term Debt, net:						
Long-term debt, net		2,645,101		10		2,645,111
Intercompany loan payable	1,012,907		2,043,433	234,609	(3,290,949)	
Total Long-Term Debt, net	1,012,907	2,645,101	2,043,433	234,619	(3,290,949)	2,645,111
Deferred tax liabilities, net				139,834	(39,473)	100,361
Non-current tax liabilities			87,483	1,184		88,667
Other liabilities		21,502	227,465	181,610		430,577
Total Liabilities	1,012,907	2,734,283	5,109,891	2,764,491	(3,362,699)	8,258,873
Commitments and contingencies						
Equity:						
CBRE Group, Inc.:						
Stockholders' Equity	2,712,652	3,699,642	3,796,841	2,360,544	(9,857,027)	2,712,652
Non-controlling interests				46,418		46,418
Total Equity	2,712,652	3,699,642	3,796,841	2,406,962	(9,857,027)	2,759,070
Total Liabilities and Equity	\$ 3,725,559	\$ 6,433,925	\$ 8,906,732	\$ 5,171,453	\$ (13,219,726)	\$ 11,017,943

(1) Although CBRE Capital Markets is included among our domestic subsidiaries that jointly and severally guarantee our 5.00% senior notes, 4.875% senior notes, 5.25% senior notes and our 2015 Credit Agreement, a substantial majority of warehouse receivables funded under TD Bank, Capital One, BofA, JP Morgan and Fannie Mae ASAP lines of credit are pledged to TD Bank, Capital One, BofA, JP Morgan and Fannie Mae, and accordingly, are not included as collateral for these notes or our other outstanding debt.

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED JUNE 30, 2016****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$	\$	\$ 1,642,191	\$ 1,565,346	\$	\$ 3,207,537
Costs and expenses:						
Cost of services			1,129,785	1,124,448		2,254,233
Operating, administrative and other	767	(8,950)	365,488	323,137		680,442
Depreciation and amortization			55,933	34,335		90,268
Total costs and expenses	767	(8,950)	1,551,206	1,481,920		3,024,943
Gain on disposition of real estate						
Operating (loss) income	(767)	8,950	90,985	83,426		182,594
Equity income from unconsolidated subsidiaries			33,952	977		34,929
Other income (loss)		1	(49)	3,930		3,882
Interest income		33,096	654	2,412	(33,096)	3,066
Interest expense		34,989	24,827	10,267	(33,096)	36,987
Royalty and management service (income) expense			(16,340)	16,340		
Income from consolidated subsidiaries	122,141	117,787	38,843		(278,771)	
Income before (benefit of) provision for income taxes	121,374	124,845	155,898	64,138	(278,771)	187,484
(Benefit of) provision for income taxes	(294)	2,704	38,111	23,518		64,039
Net income	121,668	122,141	117,787	40,620	(278,771)	123,445
				1,777		1,777

Less: Net income attributable  
to non-controlling interests

Net income attributable to CBRE Group, Inc.	\$ 121,668	\$ 122,141	\$ 117,787	\$ 38,843	\$ (278,771)	\$ 121,668
--	------------	------------	------------	-----------	--------------	------------

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED JUNE 30, 2015****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$	\$	\$ 1,341,591	\$ 1,048,915	\$	\$ 2,390,506
Costs and expenses:						
Cost of services			849,131	638,843		1,487,974
Operating, administrative and other	12,362	11,698	301,412	284,686		610,158
Depreciation and amortization			39,282	31,323		70,605
Total costs and expenses	12,362	11,698	1,189,825	954,852		2,168,737
Gain on disposition of real estate			141	6,845		6,986
Operating (loss) income	(12,362)	(11,698)	151,907	100,908		228,755
Equity income (loss) from unconsolidated subsidiaries			8,591	(1,898)		6,693
Other income (loss)		1	335	(1,405)		(1,069)
Interest income		52,361	78,199	990	(130,148)	1,402
Interest expense		102,816	36,373	17,113	(130,148)	26,154
Royalty and management service expense (income)			236	(236)		
Income from consolidated subsidiaries	132,726	171,425	43,680		(347,831)	
Income before (benefit of) provision for income taxes	120,364	109,273	246,103	81,718	(347,831)	209,627
(Benefit of) provision for income taxes	(4,665)	(23,453)	74,678	29,914		76,474
Net income	125,029	132,726	171,425	51,804	(347,831)	133,153
				8,124		8,124

Less: Net income attributable  
to non-controlling interests

Net income attributable to CBRE Group, Inc.	\$ 125,029	\$ 132,726	\$ 171,425	\$ 43,680	\$ (347,831)	\$ 125,029
--	------------	------------	------------	-----------	--------------	------------



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2016****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$	\$	\$ 3,139,690	\$ 2,914,581	\$	\$ 6,054,271
Costs and expenses:						
Cost of services			2,154,348	2,113,498		4,267,846
Operating, administrative and other	2,193	(1,426)	708,358	614,683		1,323,808
Depreciation and amortization			110,664	66,598		177,262
Total costs and expenses	2,193	(1,426)	2,973,370	2,794,779		5,768,916
Gain on disposition of real estate			3,659	1,160		4,819
Operating (loss) income	(2,193)	1,426	169,979	120,962		290,174
Equity income from unconsolidated subsidiaries			90,217	2,013		92,230
Other income (loss)		1	(481)	7,577		7,097
Interest income		65,569	1,571	2,954	(65,569)	4,525
Interest expense		68,616	49,410	19,320	(65,569)	71,777
Royalty and management service (income) expense			(23,768)	23,768		
Income from consolidated subsidiaries	205,188	206,187	42,375		(453,750)	
Income before (benefit of) provision for income taxes	202,995	204,567	278,019	90,418	(453,750)	322,249
(Benefit of) provision for income taxes	(840)	(621)	71,832	43,793		114,164
Net income	203,835	205,188	206,187	46,625	(453,750)	208,085
				4,250		4,250

Less: Net income attributable  
to non-controlling interests

Net income attributable to CBRE Group, Inc.	\$ 203,835	\$ 205,188	\$ 206,187	\$ 42,375	\$ (453,750)	\$ 203,835
--	------------	------------	------------	-----------	--------------	------------

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2015****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Revenue	\$	\$	\$ 2,499,462	\$ 1,943,547	\$	\$ 4,443,009
Costs and expenses:						
Cost of services			1,566,774	1,211,977		2,778,751
Operating, administrative and other	25,506	(6,922)	585,999	537,350		1,141,933
Depreciation and amortization			75,809	64,642		140,451
Total costs and expenses	25,506	(6,922)	2,228,582	1,813,969		4,061,135
Gain on disposition of real estate			141	6,845		6,986
Operating (loss) income	(25,506)	6,922	271,021	136,423		388,860
Equity income (loss) from unconsolidated subsidiaries			23,912	(1,768)		22,144
Other income (loss)		1	1,259	(1,242)		18
Interest income		107,728	78,873	2,613	(185,515)	3,699
Interest expense		127,702	75,775	34,406	(185,515)	52,368
Write-off of financing costs on extinguished debt		2,685				2,685
Royalty and management service (income) expense			(3,866)	3,866		
Income from consolidated subsidiaries	233,847	243,645	43,905		(521,397)	
Income before (benefit of) provision for income taxes	208,341	227,909	347,061	97,754	(521,397)	359,668
(Benefit of) provision for income taxes	(9,625)	(5,938)	103,416	45,524		133,377

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Net income	217,966	233,847	243,645	52,230	(521,397)	226,291
Less: Net income attributable to non-controlling interests				8,325		8,325
Net income attributable to CBRE Group, Inc.	\$ 217,966	\$ 233,847	\$ 243,645	\$ 43,905	\$ (521,397)	\$ 217,966

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****FOR THE THREE MONTHS ENDED JUNE 30, 2016****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net income	\$ 121,668	\$ 122,141	\$ 117,787	\$ 40,620	\$ (278,771)	\$ 123,445
Other comprehensive income (loss):						
Foreign currency translation loss				(102,308)		(102,308)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net		1,733				1,733
Unrealized losses on interest rate swaps, net		(1,206)				(1,206)
Unrealized holding gains (losses) on available for sale securities, net			1,603	(29)		1,574
Other, net			(702)			(702)
Total other comprehensive income (loss)		527	901	(102,337)		(100,909)
Comprehensive income (loss)	121,668	122,668	118,688	(61,717)	(278,771)	22,536
Less: Comprehensive income attributable to non-controlling interests				1,694		1,694
Comprehensive income (loss) attributable to CBRE Group, Inc.	\$ 121,668	\$ 122,668	\$ 118,688	\$ (63,411)	\$ (278,771)	\$ 20,842

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2015****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net income	\$ 125,029	\$ 132,726	\$ 171,425	\$ 51,804	\$ (347,831)	\$ 133,153
Other comprehensive income:						
Foreign currency translation gain				57,508		57,508
Amounts reclassified from accumulated other comprehensive loss to interest expense, net		1,809				1,809
Unrealized gains on interest rate swaps, net		263				263
Unrealized holding gains (losses) on available for sale securities, net			258	(21)		237
Other, net			16			16
Total other comprehensive income		2,072	274	57,487		59,833
Comprehensive income	125,029	134,798	171,699	109,291	(347,831)	192,986
Less: Comprehensive income attributable to non-controlling interests				8,141		8,141
Comprehensive income attributable to CBRE Group, Inc.	\$ 125,029	\$ 134,798	\$ 171,699	\$ 101,150	\$ (347,831)	\$ 184,845

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****FOR THE SIX MONTHS ENDED JUNE 30, 2016****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net income	\$ 203,835	\$ 205,188	\$ 206,187	\$ 46,625	\$ (453,750)	\$ 208,085
Other comprehensive loss:						
Foreign currency translation loss				(85,714)		(85,714)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net		3,476				3,476
Unrealized losses on interest rate swaps, net		(4,115)				(4,115)
Unrealized holding gains on available for sale securities, net			514	131		645
Other, net			(759)			(759)
Total other comprehensive loss		(639)	(245)	(85,583)		(86,467)
Comprehensive income (loss)	203,835	204,549	205,942	(38,958)	(453,750)	121,618
Less: Comprehensive income attributable to non-controlling interests				4,289		4,289
Comprehensive income (loss) attributable to CBRE Group, Inc.	\$ 203,835	\$ 204,549	\$ 205,942	\$ (43,247)	\$ (453,750)	\$ 117,329

**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****FOR THE SIX MONTHS ENDED JUNE 30, 2015****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Net income	\$ 217,966	\$ 233,847	\$ 243,645	\$ 52,230	\$ (521,397)	\$ 226,291
Other comprehensive income (loss):						
Foreign currency translation loss				(47,912)		(47,912)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net		3,604				3,604
Unrealized losses on interest rate swaps, net		(2,511)				(2,511)
Unrealized holding (losses) gains on available for sale securities, net			(29)	100		71
Other, net			18			18
Total other comprehensive income (loss)		1,093	(11)	(47,812)		(46,730)
Comprehensive income	217,966	234,940	243,634	4,418	(521,397)	179,561
Less: Comprehensive income attributable to non-controlling interests				8,309		8,309
Comprehensive income (loss) attributable to CBRE Group, Inc.	\$ 217,966	\$ 234,940	\$ 243,634	\$ (3,891)	\$ (521,397)	\$ 171,252



**Table of Contents**

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2016****(Dollars in thousands)**

	<b>Parent</b>	<b>CBRE</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Consolidated Total</b>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	\$ 57,811	\$ 9,377	\$ (192,950)	\$ (84,255)	\$ (210,017)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures			(51,510)	(27,548)	(79,058)
Acquisition of GWS, including net assets acquired, intangibles and goodwill			(21,900)		(21,900)
Acquisition of businesses (other than GWS), including net assets acquired, intangibles and goodwill, net of cash acquired			(1,381)	(15,188)	(16,569)
Contributions to unconsolidated subsidiaries			(21,549)	(5,882)	(27,431)
Distributions from unconsolidated subsidiaries			91,421	2,491	93,912
Proceeds from the sale of servicing rights and other assets			7,820	7,251	15,071
Decrease (increase) in restricted cash			3,250	(3,728)	(478)
Purchase of available for sale securities			(23,984)		(23,984)
Proceeds from the sale of available for sale securities			22,061		22,061
Other investing activities, net			(1,132)	(10)	(1,142)
Net cash provided by (used in) investing activities			3,096	(42,614)	(39,518)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					

Edgar Filing: CBRE GROUP, INC. - Form 10-Q

Repayment of senior term loans		(14,375)			(14,375)
Proceeds from revolving credit facility		1,356,000			1,356,000
Repayment of revolving credit facility		(1,200,000)			(1,200,000)
Proceeds from notes payable on real estate held for sale and under development				13,315	13,315
Repayment of notes payable on real estate held for sale and under development				(4,102)	(4,102)
Repayment of short-term borrowings and other loans, net				(447)	(447)
Shares repurchased for payment of taxes on equity awards	(5,112)				(5,112)
Proceeds from exercise of stock options	814				814
Non-controlling interest contributions				821	821
Non-controlling interest distributions				(3,517)	(3,517)
Payment of financing costs		(5,419)		(110)	(5,529)
(Increase) decrease in intercompany receivables, net	(53,774)	(147,900)	110,453	91,221	
Other financing activities, net	260		(1,173)	4,533	3,620
Net cash (used in) provided by financing activities	(57,812)	(11,694)	109,280	101,714	141,488
Effect of currency exchange rate changes on cash and cash equivalents				(588)	(588)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1)</b>	<b>(2,317)</b>	<b>(80,574)</b>	<b>(25,743)</b>	<b>(108,635)</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>5</b>	<b>8,479</b>	<b>147,410</b>	<b>384,509</b>	<b>540,403</b>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 4</b>	<b>\$ 6,162</b>	<b>\$ 66,836</b>	<b>\$ 358,766</b>	<b>\$ 431,768</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>					
Cash paid during the period for:					
Interest	\$	\$ 62,083	\$	\$ 1,337	\$ 63,420
Income taxes, net	\$	\$	\$ 107,070	\$ 53,283	\$ 160,353

Table of Contents

## CBRE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2015****(Dollars in thousands)**

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	\$ 23,264	\$ (4,978)	\$ (6,437)	\$ (54,040)	\$ (42,191)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures			(25,039)	(25,349)	(50,388)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired			(91,413)	(3,562)	(94,975)
Contributions to unconsolidated subsidiaries			(26,662)	(909)	(27,571)
Distributions from unconsolidated subsidiaries			25,060	2,209	27,269
Proceeds from the sale of servicing rights and other assets			5,439	7,176	12,615
Increase in restricted cash			(520)	(38,158)	(38,678)
Purchase of available for sale securities			(23,453)		(23,453)
Proceeds from the sale of available for sale securities			24,563		24,563
Other investing activities, net			1,192	(1,411)	(219)
Net cash used in investing activities			(110,833)	(60,004)	(170,837)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Proceeds from senior term loans		500,000			500,000
Repayment of senior term loans		(648,738)			(648,738)
Proceeds from revolving credit facility		831,000			831,000
Repayment of revolving credit facility		(831,000)		(4,512)	(835,512)
Proceeds from notes payable on real estate held for sale and under				4,404	4,404

development					
Proceeds from short-term borrowings, net				569	569
Shares repurchased for payment of taxes on equity awards	(5,113)				(5,113)
Proceeds from exercise of stock options	3,214				3,214
Non-controlling interest contributions				4,405	4,405
Non-controlling interest distributions				(10,637)	(10,637)
Payment of financing costs		(22,225)			(22,225)
(Increase) decrease in intercompany receivables, net	(22,443)	172,720	(198,173)	47,896	
Other financing activities, net	1,078		(2,113)	(801)	(1,836)
Net cash (used in) provided by financing activities	(23,264)	1,757	(200,286)	41,324	(180,469)
Effect of currency exchange rate changes on cash and cash equivalents				(10,965)	(10,965)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(3,221)	(317,556)	(83,685)	(404,462)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	5	18,262	374,103	348,514	740,884
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	\$ 5	\$ 15,041	\$ 56,547	\$ 264,829	\$ 336,422
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>					
Cash paid during the period for:					
Interest	\$	\$ 42,137	\$ 83	\$ 903	\$ 43,123
Income taxes, net	\$	\$	\$ 87,405	\$ 60,606	\$ 148,011

---

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q (Quarterly Report) for CBRE Group, Inc. for the three months ended June 30, 2016 represents an update to the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2015. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K for the year ended December 31, 2015 as well as the unaudited financial statements included elsewhere in this Quarterly Report.

In addition, the statements and assumptions in this Quarterly Report that are not statements of historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended, including, in particular, statements about our plans, strategies and prospects as well as estimates of industry growth for the next quarter and beyond. For important information regarding these forward-looking statements, please see the discussion below under the caption "Cautionary Note on Forward-Looking Statements."

### **Overview**

We are the world's largest commercial real estate services and investment firm, based on 2015 revenue, with leading full-service operations in major metropolitan areas throughout the world. We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multifamily and other types of commercial real estate. As of December 31, 2015, excluding independent affiliates, we operated in more than 400 offices worldwide with more than 70,000 employees providing commercial real estate services under the "CBRE" brand name, investment management services under the "CBRE Global Investors" brand name and development services under the "Trammell Crow Company" brand name. Our business is focused on several competencies, including commercial property, corporate facilities, project and transaction management, tenant/occupier and property/agency leasing, capital markets solutions (property sales, commercial mortgage origination, sales and servicing, and structured finance) real estate investment management, valuation, development services and proprietary research. We generate revenue from both management fees (large multi-year portfolio and per-project contracts) and from commissions on transactions. We have been included in the *Fortune* 500 since 2008 (ranking #259 in 2016) and among the *Fortune* Most Admired Companies in the real estate sector for four consecutive years. In 2016, we were ranked by *Forbes* as the 15<sup>th</sup> best employer in America, and the International Association of Outsourcing Professionals (IAOP) has ranked us among the top outsourcing service providers across all industries for five consecutive years, including in 2016. Additionally, we were one of only two companies to be ranked in the top 12 in the *Barron's* 500, which evaluates companies on growth and financial performance, in each of the past three years, including 2016.

### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that we believe to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, goodwill and other intangible assets, and income taxes can be found in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to these policies as of June 30, 2016.

### **New Accounting Pronouncements**

See Note 2 of the Notes to Consolidated Financial Statements (Unaudited) set forth in Item 1 of this Quarterly Report.



## **Table of Contents**

### **Seasonality**

A significant portion of our revenue is seasonal, which an investor should keep in mind when comparing our financial condition and results of operations on a quarter-by-quarter basis. Historically, our revenue, operating income, net income and cash flow from operating activities tend to be lowest in the first quarter, and highest in the fourth quarter of each year. Revenue, earnings and cash flow have generally been concentrated in the fourth calendar quarter due to the focus on completing sales, financing and leasing transactions prior to year-end.

### **Inflation**

Our commissions and other variable costs related to revenue are primarily affected by real estate market supply and demand, which may be affected by inflation. However, to date, we do not believe that general inflation has had a material impact upon our operations.

### **Items Affecting Comparability**

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

### ***Macroeconomic Conditions***

Economic trends and government policies affect global and regional commercial real estate markets as well as our operations directly. These include: overall economic activity and employment growth; interest rate levels and changes in interest rates; the cost and availability of credit; and the impact of tax, government and regulatory policies. Periods of economic weakness or recession, significantly rising interest rates, fiscal uncertainty, declining employment levels, decreasing demand for commercial real estate, falling real estate values, disruption to the global capital or credit markets, or the public perception that any of these events may occur, will negatively affect the performance of our business.

Compensation is our largest expense and the sales and leasing professionals in our advisory services business generally are paid on a commission and/or bonus basis that correlates with their revenue production. As a result, the negative effect of difficult market conditions on our operating margins is partially mitigated by the inherent variability of our compensation cost structure. In addition, when negative economic conditions have been particularly severe, we have moved decisively to lower operating expenses to improve financial performance, and then have restored certain expenses as economic conditions improved. Nevertheless, adverse global and regional economic trends could pose significant risks to the performance of our operations and our financial condition.

Commercial real estate markets have recovered over the past several years, along with the steady improvement in global economic activity, most particularly in the United States. Since 2010, U.S. leasing markets have been marked by increased demand for space, falling vacancies and higher rents. During this time, healthy U.S. property sales activity has been sustained by gradually improving market fundamentals, low-cost credit availability and increased global and domestic capital flows. Property sales volumes slowed in the first half of 2016 following several years of strong growth; however, the market remained active.

European economies began to emerge from recession in 2013, with most countries returning to positive, albeit modest, economic growth. Reflecting the macroeconomic environment, leasing markets in Europe were slow to recover, but have improved in many markets in 2015 and 2016. An exception is London where



## **Table of Contents**

uncertainty in advance of and immediately after the United Kingdom's referendum to leave the European Union, commonly referred to as Brexit, constrained occupier activity in the first half of 2016. Buoyed by low-cost credit and continued capital flows, Europe saw increased property sales activity in 2015. However, market activity slowed in 2016, primarily due to sharply lower volumes in the United Kingdom, reflecting uncertainty prior to and after the European Union referendum.

In Asia Pacific, the performance of real estate leasing and investment markets has varied from country to country amid slowing economic growth. In 2016, leasing markets have been mixed with notable strength in India, reflecting improved economic growth, while investment market activity has generally waned across the region. However, local capital from the Asia-Pacific region continues to migrate to other parts of the world.

Real estate investment management and property development markets have been generally favorable with abundant debt and equity capital flows into commercial real estate. Real estate equity securities markets have rebounded in 2016, after weakening in 2015 amid concerns about potentially higher interest rates.

The performance of our global sales, leasing, investment management and development services operations depends on sustained economic growth and job creation; stable, healthy global credit markets; and continued positive business and investor sentiment.

### ***Effects of Acquisitions***

We historically have made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. On September 1, 2015, CBRE, Inc., our wholly-owned subsidiary, pursuant to a Stock and Asset Purchase Agreement (the Purchase Agreement) with Johnson Controls, Inc. (JCI), acquired JCI's Global Workplace Solutions (GWS) business (we refer to this transaction as the GWS Acquisition). The acquired GWS business is a market-leading provider of integrated facilities management solutions for major occupiers of commercial real estate and has significant operations around the world. The purchase price was \$1.475 billion, paid in cash, with adjustments for working capital and other items. We completed the GWS Acquisition in order to advance our strategy of delivering globally integrated services to major occupiers in our Americas, EMEA and Asia Pacific segments. We merged the acquired GWS business with our existing occupier outsourcing business line, and the new combined business adopted the Global Workplace Solutions name.

Strategic in-fill acquisitions have also played a key role in expanding our geographic coverage and broadening and strengthening our service offerings. The companies we acquired have generally been regional or specialty firms that complement our existing platform, or independent affiliates in which, in some cases, we held a small equity interest. During 2015, we completed eight in-fill acquisitions, including a Seattle-based leader in capital markets services for affordable housing, a Texas-based commercial real estate firm specializing in retail services, an energy management specialist based in Brookfield, Wisconsin, a Chicago-based location data analytics firm, one of the leading retail real estate services firms in the midwestern United States, an advisory, consulting and research firm specializing in the Canadian hospitality and tourism industries and our former independent affiliate companies in Columbia, South Carolina, and Memphis, Tennessee. During the six months ended June 30, 2016, we completed two in-fill acquisitions, including the acquisition of our independent affiliate in Norway and a London-based retail property advisor specializing in the luxury goods retail sector.

Although we believe that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, in general, most acquisitions will initially have an adverse impact on our

operating and net income. The adverse impact is a result of transaction-related expenditures, which include severance, lease termination, transaction and deferred financing costs, among others, and the charges and costs of integrating the acquired business and its financial and accounting systems into our own. In addition, our acquisition structures often include deferred and/or contingent purchase price payments in future periods that are

**Table of Contents**

subject to the passage of time or achievement of certain performance metrics and other conditions. As of June 30, 2016, we have accrued deferred consideration totaling \$74.1 million, which is included in accounts payable and accrued expenses and in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

**International Operations**

We are monitoring the economic and political developments related to Brexit and the potential impact on our businesses in the United Kingdom and the rest of Europe, including, in particular, sales and leasing activity in this uncertain market environment, as well as any associated currency volatility impact on our results of operations.

As we increase our international operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our Global Investment Management business has a significant amount of euro-denominated assets under management, or AUM, as well as associated revenue and earnings in Europe, which has recently seen more pronounced (and adverse) movement in the value of the euro against the U.S. dollar. Similarly, the GWS business also has a significant amount of its revenue and earnings denominated in foreign currencies, such as the euro and the British pound sterling, which has significantly declined in value as compared to the U.S. dollar and other currencies as a result of Brexit. Fluctuations in foreign currency exchange rates have resulted and may continue to result in corresponding fluctuations in our AUM, revenue and earnings.

During the six months ended June 30, 2016, approximately 47% of our business was transacted in non-U.S. dollar currencies, the majority of which included the Australian dollar, British pound sterling, Canadian dollar, Chinese yuan, euro, Hong Kong dollar, Indian rupee, Japanese yen, Mexican peso, Singapore dollar and Swiss franc. The following table sets forth our revenue derived from our most significant currencies (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
United States dollar	\$ 1,698,086	52.9%	\$ 1,381,858	57.8%	\$ 3,239,522	53.5%	\$ 2,586,253	58.2%
British pound sterling	495,731	15.5%	400,383	16.7%	967,659	16.0%	758,263	17.1%
euro	383,261	11.9%	188,571	7.9%	695,831	11.5%	343,339	7.7%
Australian dollar	93,766	2.9%	94,464	4.0%	159,185	2.6%	164,214	3.7%
Canadian dollar	84,055	2.6%	71,272	3.0%	140,011	2.3%	132,170	3.0%
Indian rupee	56,770	1.8%	41,995	1.8%	110,473	1.8%	76,120	1.7%
Chinese yuan	50,383	1.6%	33,019	1.4%	96,952	1.6%	62,569	1.4%
Singapore dollar	41,930	1.3%	22,393	0.9%	78,156	1.3%	40,120	0.9%
Japanese yen	41,348	1.3%	34,338	1.4%	88,771	1.5%	64,605	1.5%
Swiss franc	32,426	1.0%	7,459	0.3%	63,188	1.0%	14,250	0.3%
Hong Kong dollar	25,699	0.8%	19,152	0.8%	46,530	0.8%	34,716	0.8%
Mexican peso	20,509	0.6%	12,665	0.5%	37,587	0.6%	25,067	0.6%
Other currencies	183,573	5.8%	82,937	3.5%	330,406	5.5%	141,323	3.1%
Total revenue	\$ 3,207,537	100.0%	\$ 2,390,506	100.0%	\$ 6,054,271	100.0%	\$ 4,443,009	100.0%

Although we operate globally, we report our results in U.S. dollars. As a result, the strengthening or weakening of the U.S. dollar may positively or negatively impact our reported results. For example, we estimate that had the British

pound sterling-to-U.S. dollar exchange rates been 10% higher during the six months ended June 30, 2016, the net impact would have been an increase in pre-tax income of \$1.6 million. Had the euro-to-U.S. dollar exchange rates been 10% higher during the six months ended June 30, 2016, the net impact would

**Table of Contents**

have been negligible on pre-tax income. These hypothetical calculations estimate the impact of translating results into U.S. dollars and do not include an estimate of the impact that a 10% change in the U.S. dollar against other currencies would have had on our foreign operations.

We enter into derivative financial instruments to attempt to protect the value or fix the amount of certain obligations in terms of our reporting currency, the U.S. dollar. In March 2014, we began a foreign currency exchange forward hedging program by entering into foreign currency exchange forward contracts, including agreements to buy U.S. dollars and sell Australian dollars, British pound sterling, Canadian dollars, euros and Japanese yen. The purpose of these forward contracts is to attempt to mitigate the risk of fluctuations in foreign currency exchange rates that would adversely impact some of our foreign currency denominated EBITDA. Hedge accounting was not elected for any of these contracts. As such, changes in the fair values of these contracts are recorded directly in earnings. Included in the consolidated statement of operations set forth in Item 1 of this Quarterly Report were net gains (losses) of \$8.5 million and \$1.0 million from foreign currency exchange forward contracts for the three and six months ended June 30, 2016, respectively, and (\$11.1) million and \$7.3 million from foreign currency exchange forward contracts for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, we had 37 foreign currency exchange forward contracts outstanding covering a notional amount of \$260.1 million.

Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. Our international operations also are subject to, among other things, political instability and changing regulatory environments, which affects the currency markets and which as a result may adversely affect our future financial condition and results of operations. We routinely monitor these risks and related costs and evaluate the appropriate amount of oversight to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

**Table of Contents****Results of Operations**

The following table sets forth items derived from our consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
Revenue	\$ 3,207,537	100.0%	\$ 2,390,506	100.0%	\$ 6,054,271	100.0%	\$ 4,443,009	100.0%
Costs and expenses:								
Cost of services	2,254,233	70.3%	1,487,974	62.2%	4,267,846	70.5%	2,778,751	62.5%
Operating, administrative and other	680,442	21.2%	610,158	25.5%	1,323,808	21.9%	1,141,933	25.7%
Depreciation and amortization	90,268	2.8%	70,605	3.0%	177,262	2.9%	140,451	3.2%
Total costs and expenses	3,024,943	94.3%	2,168,737	90.7%	5,768,916	95.3%	4,061,135	91.4%
Gain on disposition of real estate			6,986	0.3%	4,819	0.1%	6,986	0.2%
Operating income	182,594	5.7%	228,755	9.6%	290,174	4.8%	388,860	8.8%
Equity income from unconsolidated subsidiaries	34,929	1.1%	6,693	0.3%	92,230	1.5%	22,144	0.5%
Other income (loss)	3,882	0.1%	(1,069)	(0.1%)	7,097	0.1%	18	
Interest income	3,066	0.1%	1,402	0.1%	4,525	0.1%	3,699	0.1%
Interest expense	36,987	1.2%	26,154	1.1%	71,777	1.2%	52,368	1.2%
Write-off of financing costs on extinguished debt							2,685	0.1%
Income before provision for income taxes	187,484	5.8%	209,627	8.8%	322,249	5.3%	359,668	8.1%
Provision for income taxes	64,039	2.0%	76,474	3.2%	114,164	1.9%	133,377	3.0%
Net income	123,445	3.8%	133,153	5.6%	208,085	3.4%	226,291	5.1%
Less: Net income attributable to non-controlling	1,777		8,124	0.4%	4,250		8,325	0.2%

## interests

Net income  
attributable to

CBRE Group, Inc.	\$ 121,668	3.8%	\$ 125,029	5.2%	\$ 203,835	3.4%	\$ 217,966	4.9%
------------------	------------	------	------------	------	------------	------	------------	------

EBITDA	\$ 309,896	9.7%	\$ 296,860	12.4%	\$ 562,513	9.3%	\$ 543,148	12.2%
--------	------------	------	------------	-------	------------	------	------------	-------

Adjusted

EBITDA	\$ 360,451	11.2%	\$ 303,780	12.7%	\$ 643,134	10.6%	\$ 550,509	12.4%
--------	------------	-------	------------	-------	------------	-------	------------	-------

EBITDA represents earnings before net interest expense, write-off of financing costs on extinguished debt, income taxes, depreciation and amortization. Amounts shown for Adjusted EBITDA further remove (from EBITDA) the impact of certain cash and non-cash charges related to acquisitions, cost-elimination expenses as well as certain carried interest incentive compensation expense. Neither EBITDA nor Adjusted EBITDA is a recognized measurement under United States generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use them in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of these measures may not be comparable to similarly titled measures of other companies.

We generally use these non-GAAP financial measures to evaluate operating performance and for other discretionary purposes, and we believe that these measures provide a more complete understanding of ongoing operations, enhance comparability of current results to prior periods and may be useful for investors to analyze

**Table of Contents**

our financial performance because they eliminate the impact of selected charges that may obscure trends in the underlying performance of our business. We further believe that investors may find these measures useful in evaluating our operating performance compared to that of other companies in our industry because their calculations generally eliminate the effects of acquisitions, which would include impairment charges of goodwill and intangibles created from acquisitions, the effects of financings and income taxes and the accounting effects of capital spending. EBITDA and Adjusted EBITDA may vary for different companies for reasons unrelated to overall operating performance.

These measures are not intended to be measures of free cash flow for our discretionary use because they do not consider certain cash requirements such as tax and debt service payments. These measures may also differ from the amounts calculated under similarly titled definitions in our debt instruments, which amounts are further adjusted to reflect certain other cash and non-cash charges and are used by us to determine compliance with financial covenants therein and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments. We also use Adjusted EBITDA as a significant component when measuring our operating performance under our employee incentive compensation programs.

EBITDA and Adjusted EBITDA are calculated as follows (dollars in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income attributable to CBRE Group, Inc.	\$ 121,668	\$ 125,029	\$ 203,835	\$ 217,966
Add:				
Depreciation and amortization	90,268	70,605	177,262	140,451
Interest expense	36,987	26,154	71,777	52,368
Write-off of financing costs on extinguished debt				2,685
Provision for income taxes	64,039	76,474	114,164	133,377
Less:				
Interest income	3,066	1,402	4,525	3,699
<b>EBITDA</b>	<b>309,896</b>	<b>296,860</b>	<b>562,513</b>	<b>543,148</b>
Adjustments:				
Integration and other acquisition related costs	27,751	4,805	44,924	8,018
Cost-elimination expenses	27,176		39,579	
Carried interest incentive compensation (reversal) expense to align with the timing of associated revenue	(4,372)	2,115	(3,882)	(657)
<b>Adjusted EBITDA</b>	<b>\$ 360,451</b>	<b>\$ 303,780</b>	<b>\$ 643,134</b>	<b>\$ 550,509</b>

**Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015**

We reported consolidated net income of \$121.7 million for the three months ended June 30, 2016 on revenue of \$3.2 billion as compared to consolidated net income of \$125.0 million on revenue of \$2.4 billion for the three months ended June 30, 2015.



Our revenue on a consolidated basis for the three months ended June 30, 2016 increased by \$817.0 million, or 34.2%, as compared to the three months ended June 30, 2015. This increase was largely due to contributions from the GWS Acquisition, which added \$690.3 million of revenue to the current-year quarter. Additionally, the revenue increase reflects strong organic growth, fueled by higher worldwide property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 11.9%), as well as increased commercial mortgage brokerage (up 14.1%) and leasing (up 5.2%) activity. These increases were partially offset by sales activity, which was down 4.7% in the second quarter, as well as foreign currency translation, which had a \$28.1

---

**Table of Contents**

million negative impact on total revenue during the three months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the British pound sterling.

Our cost of services on a consolidated basis increased by \$766.3 million, or 51.5%, during the three months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. We also incurred \$17.8 million of costs in connection with a cost-elimination project that began in the fourth quarter of 2015 to enhance margins going forward. These increases were partially offset by foreign currency translation, which had a \$20.6 million positive impact on cost of services during the three months ended June 30, 2016. Cost of services as a percentage of revenue increased from 62.2% for the three months ended June 30, 2015 to 70.3% for the three months ended June 30, 2016, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 64.5% for the three months ended June 30, 2016, compared to 62.2% for the three months ended June 30, 2015, partly driven by the aforementioned costs associated with our cost-elimination project.

Our operating, administrative and other expenses on a consolidated basis increased by \$70.3 million, or 11.5%, during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase was partly driven by costs associated with the GWS Acquisition. Additionally, we incurred \$9.4 million of costs in connection with a project to eliminate costs to enhance margins going forward. Also contributing to the variance were higher bonuses primarily attributable to improved results in our Development Services segment. Foreign currency had a \$25.5 million positive impact on total operating expenses during the three months ended June 30, 2016, which included \$21.2 million in favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities, and \$4.3 million from foreign currency translation. Operating expenses as a percentage of revenue decreased from 25.5% for the three months ended June 30, 2015 to 21.2% for the three months ended June 30, 2016, primarily due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, operating expenses as a percentage of revenue was 24.6% for the three months ended June 30, 2016 as compared to 25.3% for the same period in 2015, mainly driven by the aforementioned positive impact of foreign currency activity in the current year, partially offset by the impact of increased bonus expense in the current year associated with gains on property sales in our Development Services segment reflected outside of revenue (in equity income from unconsolidated subsidiaries) and the aforementioned costs associated with our cost-elimination project.

Our depreciation and amortization expense on a consolidated basis increased by \$19.7 million, or 27.8%, during the three months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily attributable to higher amortization expense relative to intangibles acquired in the GWS Acquisition.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by \$28.2 million, or 421.9%, for the three months ended June 30, 2016 as compared to the same period in 2015, primarily driven by higher equity earnings associated with gains on property sales reported in our Development Services segment.

Our consolidated interest expense increased by \$10.8 million, or 41.4%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. This increase was primarily driven by interest expense in the current year associated with \$600.0 million of 4.875% senior notes issued in August 2015.

Our provision for income taxes on a consolidated basis was \$64.0 million for the three months ended June 30, 2016 as compared to \$76.5 million for the same period in 2015. This decrease was driven by the decline in pre-tax income during the three months ended June 30, 2016. Our effective tax rate, after adjusting pre-tax income to remove the portion attributable to non-controlling interests, decreased to 34.5% for the three months ended June 30, 2016 compared to 38.0% for the three months ended June 30, 2015. We experienced a favorable change in earnings mix,

with 61% of our earnings, after removing the portion attributable to non-controlling interests, forecasted from the United States for 2016 as of June 30, 2016 as compared to 68% forecasted for 2015 as of June 30, 2015, largely due to the impact of the GWS Acquisition. This benefit is offset, in part, by higher

---

**Table of Contents**

losses sustained in the current year in jurisdictions where no tax benefit could be provided. A favorable impact from discrete items recorded in the current-year quarter also contributed to the lower effective tax rate for the three months ended June 30, 2016.

**Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015**

We reported consolidated net income of \$203.8 million for the six months ended June 30, 2016 on revenue of \$6.1 billion as compared to consolidated net income of \$218.0 million on revenue of \$4.4 billion for the six months ended June 30, 2015.

Our revenue on a consolidated basis for the six months ended June 30, 2016 increased by \$1.6 billion, or 36.3%, as compared to the six months ended June 30, 2015. This increase was largely due to contributions from the GWS Acquisition, which added \$1.3 billion of revenue to the current-year period. Additionally, the revenue increase reflects strong organic growth, fueled by higher worldwide property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 11.4%), as well as increased leasing (up 10.4%), commercial mortgage brokerage (up 8.9%) and sales (up 1.3%) activity. Foreign currency translation had a \$96.4 million negative impact on total revenue during the six months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the Australian dollar, British pound sterling and Canadian dollar.

Our cost of services on a consolidated basis increased by \$1.5 billion, or 53.6%, during the six months ended June 30, 2016 as compared to same period in 2015. This increase was primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. In addition, our sales professionals generally are paid on a commission basis, which substantially correlates with our transaction revenue performance. Accordingly, the increase in sales and lease transaction revenue led to a corresponding increase in commission expense. Lastly, we incurred \$22.4 million of costs in the current-year period in connection with our cost-elimination project. These increases were partially offset by foreign currency translation, which had a \$67.4 million positive impact on cost of services during the six months ended June 30, 2016. Cost of services as a percentage of revenue increased from 62.5% for the six months ended June 30, 2015 to 70.5% for the six months ended June 30, 2016, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 64.5% for the six months ended June 30, 2016, compared to 62.5% for the six months ended June 30, 2015, partly driven by the aforementioned costs incurred in connection with our cost-elimination project in the current-year period as well as by our mix of revenue, with a higher composition of revenue being non-commissionable in the prior-year period.

Our operating, administrative and other expenses on a consolidated basis increased by \$181.9 million, or 15.9%, during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase was partly driven by costs associated with the GWS Acquisition. Also contributing to the variance were higher worldwide payroll-related costs (particularly bonuses largely attributable to improved results, most notably in our Development Services segment). Lastly, we incurred \$17.2 million of costs in connection with our cost-elimination project. Foreign currency had a \$25.9 million positive impact on total operating expenses during the six months ended June 30, 2016, which included \$23.7 million of foreign currency translation and \$2.2 million of favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities. Operating expenses as a percentage of revenue decreased from 25.7% for the six months ended June 30, 2015 to 21.9% for the six months ended June 30, 2016, primarily due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, operating expenses as a percentage of revenue was 25.6% for the six months ended June 30, 2016 as compared to 25.5% for the same period in 2015, mainly driven by increased bonus expense in the current year associated with gains on property sales in our Development Services segment reflected outside of revenue (in equity income from unconsolidated subsidiaries) and the aforementioned costs associated with our cost-elimination project,

partially offset by the positive impact of foreign currency in the current-year period.

## **Table of Contents**

Our depreciation and amortization expense on a consolidated basis increased by \$36.8 million, or 26.2%, during the six months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily attributable to higher amortization expense relative to intangibles acquired in the GWS Acquisition.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by \$70.1 million, or 316.5%, for the six months ended June 30, 2016 as compared to the same period in 2015, primarily driven by higher equity earnings associated with gains on property sales reported in our Development Services segment.

Our consolidated interest expense increased by \$19.4 million, or 37.1%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. This increase was primarily driven by interest expense in the current year associated with \$600.0 million of 4.875% senior notes issued in August 2015.

Our write-off of financing costs on extinguished debt on a consolidated basis was \$2.7 million for the six months ended June 30, 2015. These costs included the write-off of \$1.7 million of unamortized deferred financing costs associated with our prior credit agreement dated March 28, 2013, as amended, and \$1.0 million of fees incurred in connection with our amended and restated credit agreement dated January 9, 2015, as amended (our 2015 Credit Agreement).

Our provision for income taxes on a consolidated basis was \$114.2 million for the six months ended June 30, 2016 as compared to \$133.4 million for the same period in 2015. This decrease was driven by the decline in pre-tax income during the six months ended June 30, 2016. Our effective tax rate, after adjusting pre-tax income to remove the portion attributable to non-controlling interests, decreased to 35.9% for the six months ended June 30, 2016 compared to 38.0% for the six months ended June 30, 2015. We experienced a favorable change in earnings mix, with 61% of our earnings, after removing the portion attributable to non-controlling interests, forecasted from the United States for 2016 as of June 30, 2016 as compared to 68% forecasted for 2015 as of the same period in the prior year, largely due to the impact of the GWS Acquisition. This benefit is offset, in part, by higher losses sustained in the current year in jurisdictions where no tax benefit could be provided. A decrease in unfavorable discrete items recorded in the current-year period also contributed to the lower effective tax rate for the six months ended June 30, 2016.

## **Segment Operations**

We report our operations through the following segments: (1) Americas; (2) Europe, Middle East and Africa (EMEA); (3) Asia Pacific; (4) Global Investment Management; and (5) Development Services. The Americas consists of operations located in the United States, Canada and key markets in Latin America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. The Global Investment Management business consists of investment management operations in North America, Europe and Asia Pacific. The Development Services business consists of real estate development and investment activities primarily in the United States.

The following table summarizes our revenue, costs and expenses and operating income (loss) by our Americas, EMEA, Asia Pacific, Global Investment Management and Development Services operating segments for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

**Table of Contents**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015 (1)		2016		2015 (1)	
<b>Americas</b>								
Revenue	\$ 1,775,756	100.0%	\$ 1,434,489	100.0%	\$ 3,359,315	100.0%	\$ 2,662,105	100.0%
Costs and expenses:								
Cost of services	1,231,632	69.4%	924,509	64.4%	2,331,023	69.4%	1,711,626	64.3%
Operating, administrative and other	339,707	19.1%	301,926	21.0%	656,890	19.6%	577,347	21.7%
Depreciation and amortization	63,197	3.5%	44,591	3.2%	123,797	3.6%	87,541	3.3%
Operating income	\$ 141,220	8.0%	\$ 163,463	11.4%	\$ 247,605	7.4%	\$ 285,591	10.7%
EBITDA (2)	\$ 208,407	11.7%	\$ 213,956	14.9%	\$ 381,745	11.4%	\$ 384,018	14.4%
<b>EMEA</b>								
Revenue	\$ 961,835	100.0%	\$ 585,714	100.0%	\$ 1,809,333	100.0%	\$ 1,079,738	100.0%
Costs and expenses:								
Cost of services	763,779	79.4%	400,947	68.5%	1,447,457	80.0%	763,450	70.7%
Operating, administrative and other	162,187	16.9%	145,959	24.9%	311,502	17.2%	260,249	24.1%
Depreciation and amortization	16,257	1.7%	14,607	2.5%	31,262	1.7%	29,399	2.7%
Operating income	\$ 19,612	2.0%	\$ 24,201	4.1%	\$ 19,112	1.1%	\$ 26,640	2.5%
EBITDA (2)	\$ 36,702	3.8%	\$ 39,479	6.7%	\$ 51,916	2.9%	\$ 57,662	5.3%
<b>Asia Pacific</b>								
Revenue	\$ 356,318	100.0%	\$ 261,828	100.0%	\$ 664,842	100.0%	\$ 470,194	100.0%
Costs and expenses:								
Cost of services	258,822	72.6%	162,518	62.1%	489,366	73.6%	303,675	64.6%
Operating, administrative and other	77,143	21.7%	69,620	26.6%	144,424	21.7%	122,367	26.0%
Depreciation and amortization	4,297	1.2%	3,783	1.4%	8,478	1.3%	7,629	1.6%
Operating income	\$ 16,056	4.5%	\$ 25,907	9.9%	\$ 22,574	3.4%	\$ 36,523	7.8%
EBITDA (2)	\$ 20,275	5.7%	\$ 29,724	11.4%	\$ 30,929	4.7%	\$ 44,186	9.4%

**Global  
Investment  
Management**

Revenue	\$	95,737	100.0%	\$	94,053	100.0%	\$	186,117	100.0%	\$	204,277	100.0%
Costs and expenses:												
Operating, administrative and other		73,577	76.9%		77,690	82.6%		145,967	78.4%		148,443	72.7%
Depreciation and amortization		5,817	6.0%		7,061	7.5%		12,437	6.7%		14,672	7.1%
Operating income	\$	16,343	17.1%	\$	9,302	9.9%	\$	27,713	14.9%	\$	41,162	20.2%
EBITDA (2)	\$	25,987	27.1%	\$	12,948	13.8%	\$	47,523	25.5%	\$	50,993	25.0%



**Table of Contents**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015 (1)		2016		2015 (1)	
<b>Development Services</b>								
Revenue	\$ 17,891	100.0%	\$ 14,422	100.0%	\$ 34,664	100.0%	\$ 26,695	100.0%
Costs and expenses:								
Operating, administrative and other	27,828	155.5%	14,963	103.8%	65,025	187.6%	33,527	125.6%
Depreciation and amortization	700	4.0%	563	3.9%	1,288	3.7%	1,210	4.6%
Gain on disposition of real estate			6,986	48.5%	4,819	13.9%	6,986	26.2%
Operating (loss) income	\$ (10,637)	(59.5%)	\$ 5,882	40.8%	\$ (26,830)	(77.4%)	\$ (1,056)	(4.0%)
EBITDA (2)	\$ 18,525	103.5%	\$ 753	5.2%	\$ 50,400	145.4%	\$ 6,289	23.6%

- (1) During 2016, we changed our methodology for allocating certain costs to our reporting segments, including stock compensation, currency hedging and certain intercompany transactions. Prior year amounts have been reclassified to conform with the current year presentation. Such changes had no impact on our consolidated results.
- (2) See Note 10 of the Notes to Consolidated Financial Statements (Unaudited) set forth in Item 1 of this Quarterly Report for a reconciliation of segment EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP (which is segment net income (loss) attributable to CBRE Group, Inc.), as well as for an explanation of this non-GAAP financial measure.

**Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015****Americas**

Revenue increased by \$341.3 million, or 23.8%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. This increase was in part due to contributions from the GWS Acquisition, which added \$246.0 million of revenue to the current-year quarter. Additionally, the revenue increase reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 8.7%), as well as improved commercial mortgage brokerage and leasing activity. Foreign currency translation had a \$9.4 million negative impact on revenue during the three months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the Brazilian real and Canadian dollar.

Cost of services increased by \$307.1 million, or 33.2%, for the three months ended June 30, 2016 as compared to the same period in 2015, primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. This increase was also due to higher commission expense resulting from improved lease transaction revenue. Foreign currency translation had a \$6.1 million positive impact on cost of services during the three months ended June 30, 2016. Cost of services as a percentage of revenue increased to 69.4% for the three months ended June 30, 2016 compared to 64.4% for the same period in 2015, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 65.8% for the three months ended June 30, 2016, compared to 64.4% for the three months ended June 30, 2015.

Operating, administrative and other expenses increased by \$37.8 million, or 12.5%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase was largely driven by costs associated with the GWS Acquisition. Foreign currency had a \$3.7 million positive impact on total operating expenses during the three months ended June 30, 2016, which included foreign currency translation of \$2.1 million and favorable foreign currency transaction activity, mostly hedging related, of \$1.6 million.

---

**Table of Contents****EMEA**

Revenue increased by \$376.1 million, or 64.2%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. This increase was largely due to contributions from the GWS Acquisition, which added \$356.6 million of revenue to the current-year quarter. In addition, the revenue increase also reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 15.4%). This increase in revenue was partially offset by lower sales and leasing activity as well as foreign currency translation, which had a \$12.8 million negative impact on total revenue during the three months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the British pound sterling, partially mitigated by strength in the euro.

Cost of services increased by \$362.8 million, or 90.5%, for the three months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. We also incurred \$14.3 million of costs in the current year in connection with our cost-elimination project. These increases were partially reduced by foreign currency translation, which had a \$10.2 million positive impact on cost of services during the three months ended June 30, 2016. Cost of services as a percentage of revenue increased to 79.4% for the three months ended June 30, 2016 from 68.5% for the three months ended June 30, 2015, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 72.3% for the three months ended June 30, 2016, compared to 68.5% for the three months ended June 30, 2015, primarily driven by the aforementioned costs incurred in connection with our cost-elimination project.

Operating, administrative and other expenses increased by \$16.2 million, or 11.1%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, primarily driven by higher costs associated with the GWS Acquisition. We also incurred \$2.3 million of costs in the current-year quarter in connection with our cost-elimination project. These increases were partially mitigated by foreign currency, which had a \$15.8 million positive impact on total operating expenses during the three months ended June 30, 2016, including \$14.2 million in favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities, and \$1.6 million from foreign currency translation.

**Asia Pacific**

Revenue increased by \$94.5 million, or 36.1%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Contributions from the GWS Acquisition, which added \$87.8 million of revenue to the current-year quarter, drove the increase. The revenue increase also reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 16.4%) as well as improved leasing activity. This increase was partially offset by lower sales activity as well as by foreign currency translation, which had a \$5.7 million negative impact on total revenue during the three months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the Australian dollar, Chinese yuan and Indian rupee, partly mitigated by strength in the Japanese yen.

Cost of services increased by \$96.3 million, or 59.3%, for the three months ended June 30, 2016 as compared to the same period in 2015, mainly driven by higher costs associated with our property and facilities management businesses, particularly due to the GWS Acquisition. We also incurred \$3.3 million of costs in the current year in connection with our cost-elimination project. These increases were partially offset by foreign currency translation, which had a \$4.3 million positive impact on cost of services during the three months ended June 30, 2016. Cost of services as a percentage of revenue increased to 72.6% for the three months ended June 30, 2016 as compared to 62.1% for the same period in 2015, primarily due to the GWS Acquisition. Excluding activity associated with the

acquired GWS business, cost of services as a percentage of revenue was 66.8% for the three months ended June 30, 2016, compared to 62.1% for the same period in 2015, primarily driven by the aforementioned costs incurred in connection with our cost-elimination project as well as due to our revenue mix,

**Table of Contents**

with outsourcing revenue, which has a lower margin than sales and lease revenue, being a higher percentage of revenue than in the prior year period.

Operating, administrative and other expenses increased by \$7.5 million, or 10.8%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, primarily driven by costs associated with the GWS Acquisition. These costs were partially mitigated by foreign currency activity, which had a \$1.8 million positive impact on total operating expenses during the three months ended June 30, 2016, including \$1.1 million in favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities, and \$0.7 million from foreign currency translation.

**Global Investment Management**

Revenue increased by \$1.7 million, or 1.8%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. This increase was primarily driven by higher acquisition fees in the current year. Foreign currency translation had a \$0.2 million negative impact on total revenue during the three months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the British pound sterling.

Operating, administrative and other expenses decreased by \$4.1 million, or 5.3%, for the three months ended June 30, 2016 as compared to the same period in 2015, primarily driven by lower carried interest expense incurred in the current-year quarter. Additionally, foreign currency had a \$4.1 million positive impact on total operating expenses during the three months ended June 30, 2016, which included \$4.2 million of favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities, partially offset by a \$0.1 million negative impact of foreign currency translation. These declines in operating expenses in the current year were partially offset by the impact of \$4.8 million of costs incurred in the current-year quarter in connection with our cost-elimination project.

A rollforward of our AUM by product type for the three months ended June 30, 2016 is as follows (dollars in billions):

	<b>Funds</b>	<b>Separate Accounts</b>	<b>Securities</b>	<b>Total</b>
Balance at April 1, 2016	\$ 29.8	\$ 39.0	\$ 20.9	\$ 89.7
Inflows	0.5	1.9	0.6	3.0
Outflows	(1.1)	(0.6)	(1.5)	(3.2)
Market (depreciation) appreciation	(0.3)	(1.3)	0.7	(0.9)
Balance at June 30, 2016	\$ 28.9	\$ 39.0	\$ 20.7	\$ 88.6

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, securities portfolios and investments in operating companies and joint ventures. Our AUM is intended principally to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our assets under management consist of:

the total fair market value of the real estate properties and other assets either wholly-owned or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested or to which they have provided financing. Committed (but unfunded) capital from investors in our sponsored funds is not included in this component of our AUM. The value of development properties is included at estimated completion cost. In the case of real estate operating companies, the total value of real properties controlled by the companies, generally through joint ventures, is included in AUM; and

the net asset value of our managed securities portfolios, including investments (which may be comprised of committed but uncalled capital) in private real estate funds under our fund of funds program.

---

## **Table of Contents**

Our calculation of AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers.

### **Development Services**

Revenue increased by \$3.5 million, or 24.1%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, primarily driven by higher development fees in the current year.

Operating, administrative and other expenses increased by \$12.9 million, or 86.0%, for the three months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily driven by higher bonuses in the current year as a result of significantly improved operating performance due to property sales (reflected in equity income from unconsolidated subsidiaries).

As of June 30, 2016, development projects in process totaled \$7.1 billion, up \$1.1 billion from the second quarter of 2015. The pipeline inventory totaled \$3.0 billion, down \$0.7 billion from a year ago, as development projects converted from pipeline to in-process.

### **Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015**

#### **Americas**

Revenue increased by \$697.2 million, or 26.2%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This increase was in part due to contributions from the GWS Acquisition, which added \$487.6 million of revenue to the current-year period. Additionally, the revenue increase reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 7.9%), as well as improved leasing, sales and commercial mortgage brokerage activity. Foreign currency translation had a \$24.2 million negative impact on revenue during the six months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the Brazilian real and Canadian dollar.

Cost of services increased by \$619.4 million, or 36.2%, for the six months ended June 30, 2016 as compared to the same period in 2015, primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. This increase was also due to higher commission expense resulting from improved sales and lease transaction revenue. Foreign currency translation had a \$16.1 million positive impact on cost of services during the six months ended June 30, 2016. Cost of services as a percentage of revenue increased to 69.4% for the six months ended June 30, 2016 compared to 64.3% for the same period in 2015, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 65.7% for the six months ended June 30, 2016, compared to 64.3% for the six months ended June 30, 2015, partly driven by our mix of revenue, with a higher composition of revenue being non-commissionable in the prior year.

Operating, administrative and other expenses increased by \$79.5 million, or 13.8%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase was partly driven by costs associated with the GWS Acquisition as well as higher payroll-related costs, including an increase in 401(k) contributions in the United States, and expenses associated with our cost-elimination project. Higher software license and maintenance contract costs also contributed to the increase. Foreign currency had a \$6.6 million positive impact on total operating expenses during the six months ended June 30, 2016, which included foreign currency translation of \$6.5 million.

#### **EMEA**

Revenue increased by \$729.6 million, or 67.6%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. This increase was largely due to contributions from the GWS Acquisition,



---

**Table of Contents**

which added \$684.1 million of revenue to the current-year period. In addition, the revenue increase also reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 15.0%). This increase in revenue was partially offset by lower sales activity as well as foreign currency translation, which had a \$49.4 million negative impact on total revenue during the six months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the British pound sterling.

Cost of services increased by \$684.0 million, or 89.6%, for the six months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily due to higher costs associated with our global property and facilities management businesses, particularly due to the GWS Acquisition. We also incurred \$18.0 million of costs in the current year in connection with our cost-elimination project. These increases were partially reduced by foreign currency translation, which had a \$37.1 million positive impact on cost of services during the six months ended June 30, 2016. Cost of services as a percentage of revenue increased to 80.0% for the six months ended June 30, 2016 from 70.7% for the six months ended June 30, 2015, largely due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 72.8% for the six months ended June 30, 2016, compared to 70.7% for the six months ended June 30, 2015, primarily driven by the aforementioned costs incurred in connection with our cost-elimination project.

Operating, administrative and other expenses increased by \$51.3 million, or 19.7%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily driven by higher costs associated with the GWS Acquisition. Higher payroll-related costs (including bonuses) in the current year also contributed to the variance. Lastly, we incurred \$5.6 million of costs in the current-year period in connection with our previously mentioned cost-elimination project. These increases were partially mitigated by foreign currency, which had a \$20.8 million positive impact on total operating expenses during the six months ended June 30, 2016, including \$10.8 million in favorable foreign currency transaction activity over the same period last year, much of which related to hedging activities, and \$10.0 million from foreign currency translation.

**Asia Pacific**

Revenue increased by \$194.6 million, or 41.4%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. Contributions from the GWS Acquisition, which added \$172.8 million of revenue to the current-year period, drove the increase. The revenue increase also reflects strong organic growth, fueled by higher property, facilities and project management fees (excluding the impact of the GWS Acquisition, up 17.5%) as well as improved leasing activity. This increase was partially offset by lower sales activity as well as by foreign currency translation, which had a \$19.0 million negative impact on total revenue during the six months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the Australian dollar and Indian rupee.

Cost of services increased by \$185.7 million, or 61.1%, for the six months ended June 30, 2016 as compared to the same period in 2015, driven by higher costs associated with our property and facilities management businesses, including the acquired GWS business. We also incurred \$3.6 million of costs in the current year in connection with our cost-elimination project. These increases were partially offset by foreign currency translation, which had a \$14.2 million positive impact on cost of services during the six months ended June 30, 2016. Cost of services as a percentage of revenue increased to 73.6% for the six months ended June 30, 2016 as compared to 64.6% for the same period in 2015, primarily due to the GWS Acquisition. Excluding activity associated with the acquired GWS business, cost of services as a percentage of revenue was 67.8% for the six months ended June 30, 2016, compared to 64.6% for the same period in 2015, primarily driven by the aforementioned costs incurred in connection with our cost-elimination project as well as due to our revenue mix, with outsourcing revenue, which has a lower margin than sales and lease revenue, being a higher percentage of revenue than in the prior year period.

Operating, administrative and other expenses increased by \$22.1 million, or 18.0%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, mainly driven by costs associated with

**Table of Contents**

the GWS Acquisition. Additionally, foreign currency activity had an overall negative impact of \$2.1 million for the six months ended June 30, 2016, including unfavorable foreign currency transaction activity, mostly hedging related, of \$6.5 million, partially offset by foreign currency translation, which had a \$4.4 million positive impact on total operating expenses.

**Global Investment Management**

Revenue decreased by \$18.2 million, or 8.9%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. This decrease was primarily driven by lower carried interest revenue as well as lower asset management and acquisition fees in the current year. Foreign currency translation had a \$3.8 million negative impact on total revenue during the six months ended June 30, 2016 versus the same period in 2015, primarily driven by weakness in the British pound sterling.

Operating, administrative and other expenses increased by \$2.5 million, or 1.7%, for the six months ended June 30, 2016 as compared to the same period in 2015, primarily driven by higher payroll-related costs as well as \$5.7 million of charges incurred in the current year in connection with our cost-elimination project. These increases were mostly offset by lower carried interest expense incurred in the current-year period. Additionally, foreign currency had a \$3.0 million positive impact on total operating expenses during the six months ended June 30, 2016, which included a \$2.8 million favorable impact of foreign currency translation.

A rollforward of our AUM by product type for the six months ended June 30, 2016 is as follows (dollars in billions):

	<b>Funds</b>	<b>Separate Accounts</b>	<b>Securities</b>	<b>Total</b>
Balance at December 31, 2015	\$ 28.3	\$ 39.9	\$ 20.8	\$ 89.0
Inflows	1.3	3.1	1.5	5.9
Outflows	(1.3)	(2.4)	(3.1)	(6.8)
Market appreciation (depreciation)	0.6	(1.6)	1.5	0.5
Balance at June 30, 2016	\$ 28.9	\$ 39.0	\$ 20.7	\$ 88.6

We describe above how we calculate AUM. Also as noted above, our calculation of AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers.

**Development Services**

Revenue increased by \$8.0 million, or 29.9%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily driven by higher development fees in the current year.

Operating, administrative and other expenses increased by \$31.5 million, or 93.9%, for the six months ended June 30, 2016 as compared to the same period in 2015. This increase was primarily driven by higher bonuses in the current year as a result of significantly improved operating performance due to property sales (reflected in equity income from unconsolidated subsidiaries).

**Liquidity and Capital Resources**

We believe that we can satisfy our working capital requirements and funding of investments with internally generated cash flow and, as necessary, borrowings under our revolving credit facility. Our expected capital requirements for 2016 include up to approximately \$195 million of anticipated capital expenditures, net of tenant concessions. During the six months ended June 30, 2016, we incurred \$76.7 million of capital expenditures, net

## **Table of Contents**

of tenant concessions received. As of June 30, 2016, we had aggregate commitments of \$36.5 million to fund future co-investments in our Global Investment Management business, \$30.9 million of which is expected to be funded in 2016. Additionally, as of June 30, 2016, we are committed to fund \$28.6 million of additional capital to unconsolidated subsidiaries within our Development Services business, which we may be required to fund at any time. As of June 30, 2016, we had \$2.6 billion of borrowings available under our \$2.8 billion revolving credit facility.

We have historically relied on our internally generated cash flow and our revolving credit facility to fund our working capital, capital expenditure and investment requirements (including strategic in-fill acquisitions) and have not sought other external sources of financing to help fund these requirements. In the absence of extraordinary events or a large strategic acquisition, we anticipate that our cash flow from operations and our revolving credit facility would be sufficient to meet our anticipated cash requirements for the foreseeable future, and at a minimum for the next 12 months. We may seek to take advantage of market opportunities to refinance existing debt instruments, as we have done in the past, with new debt instruments at interest rates, maturities and terms we deem attractive.

As noted above, we believe that any future significant acquisitions that we may make could require us to obtain additional debt or equity financing. In the past, we have been able to obtain such financing for material transactions on terms that we believed to be reasonable. However, it is possible that we may not be able to obtain acquisition financing on favorable terms, or at all, in the future if we decide to make any further significant acquisitions.

Our long-term liquidity needs, other than those related to ordinary course obligations and commitments such as operating leases, are generally comprised of two elements. The first is the repayment of the outstanding and anticipated principal amounts of our long-term indebtedness. We are unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If our cash flow is insufficient, then we expect that we would need to refinance such indebtedness or otherwise amend its terms to extend the maturity dates. We cannot make any assurances that such refinancing or amendments would be available on attractive terms, if at all.

The second long-term liquidity need is the payment of obligations related to acquisitions. Our acquisition structures often include deferred and/or contingent purchase price payments in future periods that are subject to the passage of time or achievement of certain performance metrics and other conditions. As of June 30, 2016 and December 31, 2015, we had accrued \$74.1 million and \$79.7 million, respectively, of deferred purchase consideration, which was included in accounts payable and accrued expenses and in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

## ***Historical Cash Flows***

### ***Operating Activities***

Net cash used in operating activities totaled \$210.0 million for the six months ended June 30, 2016, an increase of \$167.8 million as compared to the six months ended June 30, 2015. The increase in cash used in operating activities was primarily due to higher net payments to vendors and income taxes paid in the current year. An increase in receivables recorded in the current year and higher operating performance in the prior year also contributed to the variance. These items were partially offset by higher commissions accrued in the current year.

### ***Investing Activities***

Net cash used in investing activities totaled \$39.5 million for the six months ended June 30, 2016, a decrease of \$131.3 million as compared to the six months ended June 30, 2015. This variance was primarily



---

**Table of Contents**

driven by a greater amount paid for in-fill acquisitions in the prior year, higher distributions received from investments in unconsolidated subsidiaries in the current year and a lower increase in restricted cash in the first six months of 2016 versus the first half of 2015. These items were partially offset by an increase in capital expenditures in the current year.

***Financing Activities***

Net cash provided by financing activities totaled \$141.5 million for the six months ended June 30, 2016, as compared to net cash used in financing activities of \$180.5 million for the same period in 2015. This variance was primarily due to greater net borrowings under our revolving credit facility in the current year as well as higher net repayments of term loans under our credit agreement in the prior year.

***Indebtedness***

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

***Long-Term Debt***

We maintain credit facilities with third-party lenders, which we use for a variety of purposes. On January 9, 2015, we entered into an amended and restated credit agreement (the 2015 Credit Agreement) with a syndicate of banks jointly led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and Credit Suisse AG. On March 21, 2016, we executed an amendment to our 2015 Credit Agreement that, among other things, extended the maturity on our revolving credit facility to March 2021 and increased the borrowing capacity under our revolving credit facility by \$200.0 million.

The 2015 Credit Agreement is an unsecured credit facility that is jointly and severally guaranteed by us and substantially all of our material domestic subsidiaries. The 2015 Credit Agreement currently provides for the following: (1) a \$2.8 billion revolving credit facility, which includes the capacity to obtain letters of credit and swingline loans and matures on March 21, 2021; (2) a \$500.0 million tranche A term loan facility requiring quarterly principal payments, which began on June 30, 2015 and continue through maturity on January 9, 2020; (3) a \$270.0 million tranche B-1 term loan facility requiring quarterly principal payments, which began on December 31, 2015 and continue through maturity on September 3, 2020; and (4) a \$130.0 million tranche B-2 term loan facility requiring quarterly principal payments, which began on December 31, 2015 and continue through maturity on September 3, 2022. In prior years, we also issued 5.00%, 4.875% and 5.25% senior notes that are due in 2023, 2026 and 2025, respectively. For additional information on all of our long-term debt, see Note 10 of the Notes to Consolidated Financial Statements set forth in Item 8 included in our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 7 of the Notes to Consolidated Financial Statements (Unaudited) set forth in Item 1 of this Quarterly Report.

***Short-Term Borrowings***

We maintain a \$2.8 billion revolving credit facility under our 2015 Credit Agreement and warehouse lines of credit with certain third-party lenders. For additional information on all of our short-term borrowings, see Note 10 of the Notes to Consolidated Financial Statements set forth in Item 8 included in our Annual Report on Form 10-K for the

year ended December 31, 2015 and Note 7 of the Notes to Consolidated Financial Statements (Unaudited) set forth in Item 1 of this Quarterly Report.



---

**Table of Contents**

*Interest Rate Swap Agreements*

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 Financial Accounting Standards Boards (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*. The purpose of these interest rate swap agreements is to attempt to hedge potential changes to our cash flows due to the variable interest nature of our senior 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. As of June 30, 2016 and December 31, 2015, the fair values of such interest rate swap agreements were reflected as a \$22.8 million liability and \$21.5 million liability, respectively, and were included in other long-term liabilities in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report.

In July 2015, we entered into three interest rate swap agreements with an aggregate notional amount of \$300.0 million, all with effective dates in August 2015, and designated them as cash flow hedges in accordance with FASB ASC Topic 815. In August 2015, we elected to terminate these agreements and paid a \$6.2 million cash settlement, which has been recorded to accumulated other comprehensive loss in the accompanying consolidated balance sheets set forth in Item 1 of this Quarterly Report. This settlement fee is being amortized to interest expense throughout the remaining term of the terminated hedge transaction until August 2025.

*Off Balance Sheet Arrangements*

Our off-balance sheet arrangements are described in Note 8 of the Notes to Consolidated Financial Statements (Unaudited) set forth in Item 1 of this Quarterly Report and are incorporated by reference herein.

**Cautionary Note on Forward-Looking Statements**

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

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

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

disruptions in general economic and business conditions, particularly in geographies where our business may be concentrated;

volatility and disruption of the securities, capital and credit markets, interest rate increases, the cost and availability of capital for investment in real estate, clients' willingness to make real estate or long-term contractual commitments and other factors affecting the value of real estate assets, inside and outside the United States;

foreign currency fluctuations;

**Table of Contents**

increases in unemployment and general slowdowns in commercial activity;

trends in pricing and risk assumption for commercial real estate services;

the effect of significant movements in average cap rates across different property types;

a reduction by companies in their reliance on outsourcing for their commercial real estate needs, which would affect our revenues and operating performance;

client actions to restrain project spending and reduce outsourced staffing levels;

declines in lending activity of Government Sponsored Enterprises, regulatory oversight of such activity and our mortgage servicing revenue from the U.S. commercial real estate mortgage market;

our ability to diversify our revenue model to offset cyclical economic trends in the commercial real estate industry;

our ability to attract new user and investor clients;

our ability to retain major clients and renew related contracts;

our ability to leverage our global services platform to maximize and sustain long-term cash flow;

our ability to maintain EBITDA margins that enable us to continue investing in our platform and client service offerings;

our ability to control costs relative to revenue growth;

variations in historically customary seasonal patterns that cause our business not to perform as expected;

changes in domestic and international law and regulatory environments (including relating to anti-corruption, anti-money laundering, trade sanctions, currency controls and other trade control laws), particularly in Russia, Eastern Europe and the Middle East, due to the rising level of political instability in those regions;

economic volatility and market uncertainty globally related to uncertainty surrounding the implementation and effect of the United Kingdom's referendum to leave the European Union, including uncertainty in relation to the legal and regulatory framework that would apply to the United Kingdom and its relationship with the remaining members of the European Union;

our ability to identify, acquire and integrate synergistic and accretive businesses;

costs and potential future capital requirements relating to businesses we may acquire;

integration challenges arising out of companies we may acquire;

our ability to retain and incentivize producers;

the ability of our Global Investment Management business to maintain and grow assets under management and achieve desired investment returns for our investors, and any potential related litigation, liabilities or reputational harm possible if we fail to do so;

our ability to manage fluctuations in net earnings and cash flow, which could result from poor performance in our investment programs, including our participation as a principal in real estate investments;

our leverage under our debt instruments as well as the limited restrictions therein on our ability to incur additional debt, and the potential increased borrowing costs to us from a credit-ratings downgrade;

litigation and its financial and reputational risks to us;

the ability of CBRE Capital Markets to periodically amend, or replace, on satisfactory terms, the agreements for its warehouse lines of credit;

**Table of Contents**

our exposure to liabilities in connection with real estate advisory and property management activities and our ability to procure sufficient insurance coverage on acceptable terms;

liabilities under guarantees, or for construction defects, that we incur in our Development Services business;

our ability to compete globally, or in specific geographic markets or business segments that are material to us;

our and our employees' ability to execute on, and adapt to, information technology strategies and trends;

our ability to comply with laws and regulations related to our global operations, including real estate licensure, tax, labor and employment laws and regulations, as well as the anti-corruption laws and trade sanctions of the U.S. and other countries;

our ability to maintain our effective tax rate at or below current levels;

the effect of implementation of new accounting rules and standards; and

the other factors described elsewhere in this Quarterly Report, included under the headings Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies, Quantitative and Qualitative Disclosures About Market Risk and Part II, Item 1A, Risk Factors or as described in our Annual Report on Form 10-K for the year ended December 31, 2015, in particular in Part II, Item 1A, Risk Factors, or as described in the other documents and reports we file with the Securities and Exchange Commission.

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information in this section should be read in connection with the information on market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2015.

Our exposure to market risk primarily consists of foreign currency exchange rate fluctuations related to our international operations and changes in interest rates on debt obligations. We manage such risk primarily by managing

the amount, sources, and duration of our debt funding and by using derivative financial instruments. We apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, when accounting for derivative financial instruments. In all cases, we view derivative financial instruments as a risk management tool and, accordingly, do not use derivatives for trading or speculative purposes.

***Exchange Rates***

Our foreign operations expose us to fluctuations in foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments in terms of our functional (reporting) currency, which are U.S. dollars. See the discussion of international operations, which is included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Items Affecting Comparability International Operations and is incorporated by reference herein.

---

**Table of Contents**

***Interest Rates***

We manage our interest expense by using a combination of fixed and variable rate debt. We enter into interest rate swap agreements to attempt to hedge the variability of future interest payments due to changes in interest rates. See discussion of our interest rate swap agreements, which is included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Liquidity and Capital Resources Indebtedness Interest Rate Swap Agreements and is incorporated by reference herein.

The estimated fair value of our senior term loans was approximately \$864.4 million at June 30, 2016. Based on dealers' quotes, the estimated fair values of our 5.00% senior notes, 4.875% senior notes and 5.25% senior notes were \$832.0 million, \$620.5 million and \$453.7 million, respectively, at June 30, 2016.

We utilize sensitivity analyses to assess the potential effect on our variable rate debt. If interest rates were to increase 100 basis points on our outstanding variable rate debt at June 30, 2016, excluding notes payable on real estate, the net impact of the additional interest cost would be a decrease of \$3.1 million on pre-tax income and an increase of \$3.1 million in cash used in operating activities for the six months ended June 30, 2016.

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

Rule 13a-15 of the Securities and Exchange Act of 1934, as amended, requires that we conduct an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report, and we have a disclosure policy in furtherance of the same. This evaluation is designed to ensure that all corporate disclosure is complete and accurate in all material respects. The evaluation is further designed to ensure that all information required to be disclosed in our SEC reports is accumulated and communicated to management to allow timely decisions regarding required disclosures and recorded, processed, summarized and reported within the time periods and in the manner specified in the SEC's rules and forms. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our Chief Executive Officer and Chief Financial Officer supervise and participate in this evaluation, and they are assisted by our Deputy Chief Financial Officer and Chief Accounting Officer and other members of our Disclosure Committee. In addition to our Deputy Chief Financial Officer and Chief Accounting Officer, our Disclosure Committee consists of our General Counsel, our chief communication officer, our corporate controller, our head of Global Internal Audit, our senior officers of significant business lines and other select employees.

We conducted the required evaluation, and our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined by Securities Exchange Act Rule 13a-15(e)) were effective as of the end of the period covered by this Quarterly Report to accomplish their objectives at the reasonable assurance level.

***Changes in Internal Controls Over Financial Reporting***

No changes in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

There have been no material changes to our legal proceedings as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.



**Table of Contents****Item 1A. Risk Factors**

With the exception of the following, there have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

*The United Kingdom (U.K.) vote to exit from the European Union could significantly adversely impact our U.K. and other European businesses and our results of operations.*

On June 23, 2016, U.K. citizens voted in a referendum to leave the European Union, commonly referred to as Brexit. The consequences of this vote, and the expected exit of the United Kingdom together with what may be protracted negotiations around the terms of such exit, could significantly impact the business environment in the United Kingdom and the rest of Europe and introduce significant new uncertainties in the markets in which we operate. The U.K. vote to leave the European Union has generated market volatility, with a significant decline in the value of British pound sterling against the U.S. dollar also occurring. Additional market and/or currency volatility may adversely impact our clients' confidence and may result in a deterioration in our U.K. and other European businesses as leasing and investing activity slow down. A decline in business activity in the United Kingdom and the other European countries in which we operate as a result of the uncertain consequences of the U.K. vote, together with the volatility of the British pound sterling, could have a significant adverse effect on our U.K. and other European businesses and our results of operations.

**Item 6. Exhibits**

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File No.	Exhibit	Filing Date	
2.1	Stock and Asset Purchase Agreement, dated as of March 31, 2015, by and between CBRE, Inc. and Johnson Controls, Inc.	8-K	001-32205	2.1	4/3/2015	
3.1	Amended and Restated Certificate of Incorporation of CBRE Group, Inc.	8-K	001-32205	3.1	05/19/2016	
3.2	Amended and Restated By-Laws of CBRE Group, Inc.	8-K	001-32205	3.2	05/19/2016	
4.1	Form of Class A common stock certificate of CB Richard Ellis Group, Inc.	S-1/A#2	333-112867	4.1	4/30/2004	
4.2(a)	Securityholders Agreement, dated as of July 20, 2001 ( Securityholders Agreement ), by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc., Blum Strategic Partners, L.P., Blum Strategic Partners II, L.P., Blum Strategic Partners II	SC-13D	005-61805	3	7/30/2001	

GmbH & Co. KG, FS Equity Partners  
III, L.P., FS Equity Partners  
International, L.P., Credit Suisse First  
Boston Corporation, DLJ Investment  
Funding, Inc., The Koll Holding  
Company, Frederic V. Malek, the  
management investors named therein  
and the other persons from time to time  
party thereto

**Table of Contents**

<b>Exhibit No.</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Form</b>	<b>SEC File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
4.2(b)	Amendment and Waiver to Securityholders Agreement, dated as of April 14, 2004, by and among, CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and the other parties to the Securityholders Agreement	S-1/A	333-112867	4.2(b)	4/30/2004	
4.2(c)	Second Amendment and Waiver to Securityholders Agreement, dated as of November 24, 2004, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement	S-1/A	333-120445	4.2(c)	11/24/2004	
4.2(d)	Third Amendment and Waiver to Securityholders Agreement, dated as of August 1, 2005, by and among CB Richard Ellis Group, Inc., CB Richard Ellis Services, Inc. and certain of the other parties to the Securityholders Agreement	8-K	001-32205	4.1	8/2/2005	
4.3(a)	Indenture, dated as of March 14, 2013, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee	10-Q	001-32205	4.4(a)	5/10/2013	
4.3(b)	First Supplemental Indenture, dated as of March 14, 2013, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes Due 2023	10-Q	001-32205	4.4(b)	5/10/2013	
4.3(c)	Second Supplemental Indenture, dated as April 10, 2013 among CBRE/LJM-Nevada, Inc., CBRE Consulting, Inc., CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes due 2023	S-3ASR	333-201126	4.3(c)	12/19/2014	
4.3(d)	Form of 5.00% Senior Notes due 2023 (included in Exhibit 4.3(b))	10-Q	001-32205	4.4(b)	5/10/2013	



**Table of Contents**

<b>Exhibit No.</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Form</b>	<b>SEC File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
4.3(e)	Form of Supplemental Indenture among certain U.S. subsidiaries from time-to-time, CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.00% Senior Notes due 2023	8-K	001-32205	4.3	4/16/2013	
4.3(f)	Second Supplemental Indenture, dated as of September 24, 2014, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.25% Senior Notes due 2025	8-K	001-32205	4.1	9/26/2014	
4.3(g)	Form of 5.25% Senior Notes due 2025 (included in Exhibit 4.3(f))	8-K	001-32205	4.2	9/26/2014	
4.3(h)	Form of Supplemental Indenture among certain subsidiary guarantors of CBRE Services, Inc., CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the 5.25% Senior Notes due 2025	S-3ASR	333-201126	4.3(h)	12/19/2014	
4.3(i)	Third Supplemental Indenture, dated as of December 12, 2014, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the additional issuance of 5.25% Senior Notes due 2025	8-K	001-32205	4.1	12/12/2014	
4.3(j)	Fourth Supplemental Indenture, dated as of August 13, 2015, among CBRE Group, Inc., CBRE Services, Inc., certain subsidiaries of CBRE Services, Inc. and Wells Fargo Bank, National Association, as trustee, for the issuance of 4.875% Senior Notes due 2026	8-K	001-32205	4.2	8/13/2015	
4.3(k)	Form of 4.875% Senior Notes due 2026 (included in Exhibit 4.3(j))	8-K	001-32205	4.3	8/13/2015	
4.3(l)	Fifth Supplemental Indenture, dated as of September 25, 2015, among CBRE GWS LLC, CBRE Services, Inc. and	8-K	001-32205	4.1	9/25/2015	

Wells Fargo Bank, National  
Association, as trustee, relating to the  
5.00% Senior Notes due 2023, 5.25%  
Senior Notes due 2025 and 4.875%  
Senior Notes due 2026.

**Table of Contents**

Exhibit No.	Exhibit Description	Form	Incorporated by Reference		Filing Date	Filed Herewith
			SEC File No.	Exhibit		
11	Statement concerning Computation of Per Share Earnings (filed as Note 9 of the Consolidated Financial Statements)					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002					X
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

In the foregoing Exhibit Index, (1) references to CB Richard Ellis Group, Inc. are now to CBRE Group, Inc., (2) references to CB Richard Ellis Services, Inc. are now to CBRE Services, Inc., and (3) references to CB Richard Ellis, Inc. are now to CBRE, Inc.

+ If used in this Exhibit Index, denotes a management contract or compensatory arrangement.





**Table of Contents**

**SIGNATURES**

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

**CBRE GROUP, INC.**

Date: August 9, 2016

/s/ JAMES R. GROCH  
James R. Groch  
*Chief Financial Officer (principal financial officer)*

Date: August 9, 2016

/s/ GIL BOROK  
Gil Borok  
*Chief Accounting Officer (principal accounting officer)*