CBRE GROUP, INC.
Form 10-Q
August 09, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2013**

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

| | |
|---|---|
| **(310) 405-8900** | **Not applicable** |
| **(Registrant s telephone number, including area code)** | **(Former name, former address and former fiscal year if changed since last report)** |

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

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

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

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

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

The number of shares of Class A common stock outstanding at July 31, 2013 was 331,468,018.

**FORM 10-Q**

**June 30, 2013**

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**CBRE GROUP, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(Dollars in thousands, except share data)**

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 485,495 | $ 1,089,297 |
| Restricted cash | 59,482 | 73,676 |
| Receivables, less allowance for doubtful accounts of $36,917 and $35,492 at June 30, 2013 and December 31, 2012, respectively | 1,222,364 | 1,262,823 |
| Warehouse receivables | 536,319 | 1,048,340 |
| Trading securities | 31,066 | 101,331 |
| Income taxes receivable | 64,355 | 17,847 |
| Prepaid expenses | 98,453 | 101,617 |
| Deferred tax assets, net | 201,874 | 205,746 |
| Real estate and other assets held for sale | 40,984 | 130,499 |
| Available for sale securities | 776 | 679 |
| Other current assets | 58,057 | 52,695 |
| Total Current Assets | 2,799,225 | 4,084,550 |
| Property and equipment, net | 369,697 | 379,176 |
| Goodwill | 1,842,070 | 1,889,602 |
| Other intangible assets, net of accumulated amortization of $306,500 and $273,631 at June 30, 2013 and December 31, 2012, respectively | 796,479 | 786,793 |
| Investments in unconsolidated subsidiaries | 209,205 | 206,798 |
| Real estate under development | 14,167 | 27,316 |
| Real estate held for investment | 112,037 | 235,045 |
| Available for sale securities | 57,752 | 57,121 |
| Other assets, net | 147,656 | 143,141 |
| Total Assets | $ 6,348,288 | $ 7,809,542 |
| **LIABILITIES AND EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 562,099 | $ 582,294 |
| Compensation and employee benefits payable | 419,663 | 440,191 |
| Accrued bonus and profit sharing | 323,783 | 540,144 |
| Securities sold, not yet purchased | 6,725 | 54,103 |
| Short-term borrowings: | | |
| Warehouse lines of credit | 525,842 | 1,026,381 |
| Revolving credit facility | 140,308 | 72,964 |
| Other | 14,605 | 16 |
| Total short-term borrowings | 680,755 | 1,099,361 |
| Current maturities of long-term debt | 42,184 | 73,156 |
| Notes payable on real estate | 31,101 | 35,212 |
| Liabilities related to real estate and other assets held for sale | 24,883 | 104,627 |
| Other current liabilities | 41,903 | 43,205 |
| Total Current Liabilities | 2,133,096 | 2,972,293 |
| Long-Term Debt: | | |
| 5.00% senior notes | 800,000 | |
| Senior secured term loans | 665,438 | 1,557,069 |
| 6.625% senior notes | 350,000 | 350,000 |

| | | |
|---|---|---|
| 11.625% senior subordinated notes, net of unamortized discount of $9,477 at December 31, 2012 | | 440,523 |
| Other long-term debt | 5,572 | 6,857 |
| Total Long-Term Debt | 1,821,010 | 2,354,449 |
| Notes payable on real estate | 94,445 | 189,258 |
| Deferred tax liabilities, net | 192,912 | 191,962 |
| Non-current tax liabilities | 83,985 | 81,875 |
| Pension liability | 58,031 | 63,528 |
| Other liabilities | 253,360 | 274,365 |
| Total Liabilities | 4,636,839 | 6,127,730 |
| Commitments and contingencies | | |
| Equity: | | |
| CBRE Group, Inc. Stockholders Equity: | | |
| Class A common stock; $0.01 par value; 525,000,000 shares authorized; 331,302,183 and 330,082,187 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively | 3,313 | 3,301 |
| Additional paid-in capital | 970,956 | 960,900 |
| Accumulated earnings | 847,502 | 740,054 |
| Accumulated other comprehensive loss | (201,671) | (165,044) |
| Total CBRE Group, Inc. Stockholders Equity | 1,620,100 | 1,539,211 |
| Non-controlling interests | 91,349 | 142,601 |
| Total Equity | 1,711,449 | 1,681,812 |
| Total Liabilities and Equity | $ 6,348,288 | $ 7,809,542 |

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

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**CBRE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Revenue | $ 1,742,014 | $ 1,601,117 | $ 3,217,077 | $ 2,951,106 |
| Costs and expenses: | | | | |
| Cost of services | 1,018,827 | 908,143 | 1,880,043 | 1,695,699 |
| Operating, administrative and other | 499,458 | 482,377 | 968,999 | 923,099 |
| Depreciation and amortization | 43,601 | 38,336 | 89,882 | 84,793 |
| Total costs and expenses | 1,561,886 | 1,428,856 | 2,938,924 | 2,703,591 |
| Gain on disposition of real estate | 7,496 | 439 | 10,645 | 1,248 |
| Operating income | 187,624 | 172,700 | 288,798 | 248,763 |
| Equity income from unconsolidated subsidiaries | 6,544 | 2,609 | 16,293 | 16,995 |
| Other income (loss) | 1,533 | (2,104) | 4,227 | 4,484 |
| Interest income | 1,490 | 1,585 | 3,518 | 3,888 |
| Interest expense | 37,532 | 44,411 | 79,927 | 88,392 |
| Write-off of financing costs | 42,715 | | 56,295 | |
| Income from continuing operations before provision for income taxes | 116,944 | 130,379 | 176,614 | 185,738 |
| Provision for income taxes | 45,815 | 54,780 | 64,819 | 80,193 |
| Income from continuing operations | 71,129 | 75,599 | 111,795 | 105,545 |
| Income from discontinued operations, net of income taxes | 3,105 | | 24,294 | |
| Net income | 74,234 | 75,599 | 136,089 | 105,545 |
| Less: Net income (loss) attributable to non-controlling interests | 4,332 | (274) | 28,641 | 2,697 |
| Net income attributable to CBRE Group, Inc. | $ 69,902 | $ 75,873 | $ 107,448 | $ 102,848 |
| *Basic income per share attributable to CBRE Group, Inc. shareholders* | | | | |
| Income from continuing operations attributable to CBRE Group, Inc. | $ 0.21 | $ 0.24 | $ 0.32 | $ 0.32 |
| Income from discontinued operations attributable to CBRE Group, Inc. | | | 0.01 | |
| Net income attributable to CBRE Group, Inc. | $ 0.21 | $ 0.24 | $ 0.33 | $ 0.32 |
| Weighted average shares outstanding for basic income per share | 327,423,589 | 320,852,344 | 327,093,358 | 320,761,873 |
| *Diluted income per share attributable to CBRE Group, Inc. shareholders* | | | | |
| Income from continuing operations attributable to CBRE Group, Inc. | $ 0.21 | $ 0.23 | $ 0.31 | $ 0.32 |
| Income from discontinued operations attributable to CBRE Group, Inc. | | | 0.01 | |
| Net income attributable to CBRE Group, Inc. | $ 0.21 | $ 0.23 | $ 0.32 | $ 0.32 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Weighted average shares outstanding for diluted income per share | | 331,631,185 | | 326,081,681 | | 331,218,705 | | 325,910,274 |
| *Amounts attributable to CBRE Group, Inc. shareholders* | | | | | | | | |
| Income from continuing operations, net of tax | $ | 69,277 | $ | 75,873 | $ | 105,367 | $ | 102,848 |
| Income from discontinued operations, net of tax | | 625 | | | | 2,081 | | |
| Net income | $ | 69,902 | $ | 75,873 | $ | 107,448 | $ | 102,848 |

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

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**CBRE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(Dollars in thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $ 74,234 | $ 75,599 | $ 136,089 | $ 105,545 |
| Other comprehensive loss: | | | | |
| Foreign currency translation loss | (24,524) | (40,181) | (47,315) | (21,659) |
| Unrealized gains (losses) on interest rate swaps and interest rate caps, net | 7,683 | (5,614) | 9,118 | (4,360) |
| Unrealized losses on available for sale securities, net | (216) | (1,100) | (384) | (186) |
| Other, net | 33 | 333 | 1,196 | (167) |
| Total other comprehensive loss | (17,024) | (46,562) | (37,385) | (26,372) |
| Comprehensive income | 57,210 | 29,037 | 98,704 | 79,173 |
| Less: Comprehensive income (loss) attributable to non-controlling interests | 3,533 | (857) | 27,883 | 2,310 |
| Comprehensive income attributable to CBRE Group, Inc. | $ 53,677 | $ 29,894 | $ 70,821 | $ 76,863 |

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

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**CBRE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(Dollars in thousands)**

| | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 136,089 | $ 105,545 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 90,752 | 84,793 |
| Amortization of financing costs | 25,247 | 4,643 |
| Amortization and write-off of debt discount | 9,477 | 731 |
| Gain on sale of loans, servicing rights and other assets | (50,623) | (43,776) |
| Net realized and unrealized gains from investments | (4,227) | (4,484) |
| Gain on disposition of real estate held for investment | (16,502) | |
| Equity income from unconsolidated subsidiaries | (16,293) | (16,995) |
| Provision for doubtful accounts | 3,618 | 6,842 |
| Compensation expense related to stock options and non-vested stock awards | 22,299 | 22,606 |
| Incremental tax benefit from stock options exercised | (7,925) | (861) |
| Distribution of earnings from unconsolidated subsidiaries | 7,884 | 8,017 |
| Tenant concessions received | 9,474 | 8,428 |
| Purchase of trading securities | (66,941) | (121,412) |
| Proceeds from sale of trading securities | 142,643 | 125,412 |
| Proceeds from securities sold, not yet purchased | 40,548 | 86,059 |
| Securities purchased to cover short sales | (91,969) | (73,250) |
| Decrease in receivables | 12,216 | 17,010 |
| Increase in prepaid expenses and other assets | (7,728) | (10,831) |
| Decrease (increase) in real estate held for sale and under development | 133,676 | (9,378) |
| Decrease in accounts payable and accrued expenses | (14,898) | (47,455) |
| Decrease in compensation and employee benefits payable and accrued bonus and profit sharing | (218,109) | (284,895) |
| Increase in income taxes receivable/payable | (40,282) | (62,527) |
| (Decrease) increase in other liabilities | (8,447) | 5,721 |
| Other operating activities, net | (5,308) | (1,602) |
| Net cash provided by (used in) operating activities | 84,671 | (201,659) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | (39,552) | (38,705) |
| Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired | (35,786) | (183) |
| Contributions to unconsolidated subsidiaries | (23,666) | (48,518) |
| Distributions from unconsolidated subsidiaries | 21,875 | 11,583 |
| Net proceeds from disposition of real estate held for investment | 109,189 | |
| Additions to real estate held for investment | (1,800) | (2,562) |
| Proceeds from the sale of servicing rights and other assets | 18,890 | 13,490 |
| Decrease in restricted cash | 10,176 | 2,909 |
| Decrease in cash due to deconsolidation of CBRE Clarion U.S., L.P. (see Note 3) | | (73,187) |
| Purchase of available for sale securities | (44,076) | (26,740) |
| Proceeds from the sale of available for sale securities | 43,586 | 23,702 |
| Other investing activities, net | 6,194 | 4,664 |
| Net cash provided by (used in) investing activities | 65,030 | (133,547) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from senior secured term loans | 715,000 | |

| | | |
|---|---|---|
| Repayment of senior secured term loans | (1,619,192) | (33,966) |
| Proceeds from revolving credit facility | 338,127 | 23,222 |
| Repayment of revolving credit facility | (266,236) | (15,230) |
| Proceeds from issuance of 5.00% senior notes | 800,000 | |
| Repayment of 11.625% senior subordinated notes | (450,000) | |
| Proceeds from notes payable on real estate held for investment | 1,641 | 4,515 |
| Repayment of notes payable on real estate held for investment | (72,369) | (9,727) |
| Proceeds from notes payable on real estate held for sale and under development | 3,481 | 6,146 |
| Repayment of notes payable on real estate held for sale and under development | (112,553) | (1,394) |
| Proceeds from short-term borrowings | 14,743 | 4,683 |
| Proceeds from exercise of stock options | 3,986 | 3,137 |
| Incremental tax benefit from stock options exercised | 7,925 | 861 |
| Non-controlling interests contributions | 253 | 15,909 |
| Non-controlling interests distributions | (74,543) | (24,080) |
| Payment of financing costs | (28,790) | (55) |
| Other financing activities, net | (1,462) | (58) |
| Net cash used in financing activities | (739,989) | (26,037) |
| Effect of currency exchange rate changes on cash and cash equivalents | (13,514) | (737) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (603,802) | (361,980) |
| **CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD** | 1,089,297 | 1,093,182 |
| **CASH AND CASH EQUIVALENTS, AT END OF PERIOD** | $ 485,495 | $ 731,202 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | |
| Cash paid during the period for: | | |
| Interest | $ 66,575 | $ 81,320 |
| Income tax payments, net | $ 111,293 | $ 143,350 |

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

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**CBRE GROUP, INC.**

**CONSOLIDATED STATEMENT OF EQUITY**

**(Unaudited)**

**(Dollars in thousands)**

| | CBRE Group, Inc. Shareholders | | | | | |
|---|---|---|---|---|---|---|
| | Class A common stock | Additional paid-in capital | Accumulated earnings | Accumulated other comprehensive loss | Non-controlling interests | Total |
| Balance at December 31, 2012 | $ 3,301 | $ 960,900 | $ 740,054 | $ (165,044) | $ 142,601 | $ 1,681,812 |
| Net income | | | 107,448 | | 28,641 | 136,089 |
| Stock options exercised (including tax benefit) | 12 | 11,899 | | | | 11,911 |
| Compensation expense for stock options and non-vested stock awards | | 22,299 | | | | 22,299 |
| Foreign currency translation loss | | | | (46,557) | (758) | (47,315) |
| Unrealized gains on interest rate swaps and interest rate caps, net | | | | 9,118 | | 9,118 |
| Unrealized losses on available for sale securities, net | | | | (384) | | (384) |
| Contributions from non-controlling interests | | | | | 253 | 253 |
| Distributions to non-controlling interests | | | | | (74,543) | (74,543) |
| Acquisition of non-controlling interests | | (20,244) | | | (6,224) | (26,468) |
| Other | | (3,898) | | 1,196 | 1,379 | (1,323) |
| Balance at June 30, 2013 | $ 3,313 | $ 970,956 | $ 847,502 | $ (201,671) | $ 91,349 | $ 1,711,449 |

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

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Basis of Presentation**

The accompanying consolidated financial statements of CBRE Group, Inc., a Delaware corporation (which may be referred to in these financial statements as the company , we , us and our ), have been prepared in accordance with the rules applicable to 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 the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of revenue and expenses. Such estimates include the value of 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 management s best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. Certain reclassifications have been made to the 2012 financial statements to conform with the 2013 presentation.

The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2013. The unaudited interim consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2012.

**2. New Accounting Pronouncements**

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* This ASU states that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, with early adoption permitted. We do not believe the adoption of this update will have a material effect on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.* This ASU permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to U.S. treasury rates and LIBOR. This ASU also removes the restriction on using different benchmark rates for similar hedges. This ASU applies to all entities that elect to apply hedge accounting of the benchmark interest rate. This ASU is effective prospectively for

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We do not believe the adoption of this update will have a material effect on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This ASU states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. This ASU should be applied prospectively to all unrecognized tax benefits that exist at the effective date, with retrospective application permitted. We do not believe the adoption of this update will have a material impact on our consolidated financial position.

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

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

During the six months ended June 30, 2012, the Venture funded $0.2 million of financial support to the Entities.

Operating results relating to the Entities for the three and six months ended June 30, 2013 and 2012 include the following (dollars in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | $ 2,022 | $ 3,720 | $ 4,029 | $ 6,594 |
| Operating, administrative and other expenses | $ 1,036 | $ 2,359 | $ 2,046 | $ 4,025 |
| Income from discontinued operations, net of income taxes | $ | $ | $ 15,236 | $ |
| Net (loss) income attributable to non-controlling interests | $ (342) | $ (1,170) | $ 14,551 | $ (2,017) |

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Investments in real estate of $40.8 million and $58.8 million and nonrecourse mortgage notes payable of $41.5 million ($0.9 million of which is current) and $61.7 million ($1.3 million of which is current) are included in real estate assets held for investment and notes payable on real estate, respectively, in the accompanying consolidated balance sheets as of June 30, 2013 and December 31, 2012, respectively. In addition, non-controlling deficits of $0.8 million and $2.7 million in the accompanying consolidated balance sheets as of June 30, 2013 and December 31, 2012, respectively, are attributable to the Entities.

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

In connection with our acquisition of Clarion Real Estate Securities (CRES) in 2011, we acquired CRES co-investments from ING Group N.V. in three funds (CRES Funds). In January 2012, one of the CRES Funds (CBRE Clarion U.S., L.P.) was converted to a registered mutual fund, the CBRE Clarion Long/Short Fund (the Fund). As a result of this triggering event, we determined that the Fund became a VIE and that we were not the primary beneficiary. Accordingly, in the first quarter of 2012, the Fund was deconsolidated from our consolidated financial statements and we recorded an investment in available for sale securities of $14.3 million. No gain or loss was recognized in our consolidated statement of operations as a result of this deconsolidation. During the second quarter of 2013, we fully redeemed our investment in the Fund. We continue to act as the Fund s adviser, make investment decisions for the Fund and review, supervise and administer the Fund s investment program.

As of June 30, 2013 and December 31, 2012, our maximum exposure to loss related to the VIEs which are not consolidated was as follows (dollars in thousands):

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Investments in unconsolidated subsidiaries | $ 46,781 | $ 47,869 |
| Other assets, current | 3,361 | 3,185 |
| Available for sale securities | | 17,281 |
| Co-investment commitments | 7,127 | 9,202 |
| Maximum exposure to loss | $ 57,269 | $ 77,537 |

**4. Fair Value Measurements**

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

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

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

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

There were no significant transfers in and out of Level 1 and Level 2 during the three and six months ended June 30, 2013 and 2012.

The following tables present the fair value of assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 (dollars in thousands):

| | As of June 30, 2013 Fair Value Measured and Recorded Using | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| *Assets* | | | | |
| Available for sale securities: | | | | |
| U.S. treasury securities | $ 2,599 | $ | $ | $ 2,599 |
| Debt securities issued by U.S. federal agencies | | 5,422 | | 5,422 |
| Corporate debt securities | | 17,900 | | 17,900 |
| Asset-backed securities | | 3,829 | | 3,829 |
| Collateralized mortgage obligations | | 4,338 | | 4,338 |
| Total debt securities | 2,599 | 31,489 | | 34,088 |
| Equity securities | 24,440 | | | 24,440 |
| Total available for sale securities | 27,039 | 31,489 | | 58,528 |
| Trading securities | 31,066 | | | 31,066 |
| Warehouse receivables | | 536,319 | | 536,319 |
| Total assets at fair value | $ 58,105 | $ 567,808 | $ | $ 625,913 |
| *Liabilities* | | | | |
| Securities sold, not yet purchased | $ 6,725 | $ | $ | $ 6,725 |
| Interest rate swaps | | 32,895 | | 32,895 |
| Total liabilities at fair value | $ 6,725 | $ 32,895 | $ | $ 39,620 |

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| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| | Fair Value Measured and Recorded Using | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| *Assets* | | | | |
| Available for sale securities: | | | | |
| U.S. treasury securities | $ 9,827 | $ | $ | $ 9,827 |
| Debt securities issued by U.S. federal agencies | | 1,914 | | 1,914 |
| Corporate debt securities | | 8,347 | | 8,347 |
| Asset-backed securities | | 5,050 | | 5,050 |
| Collateralized mortgage obligations | | 2,771 | | 2,771 |
| Total debt securities | 9,827 | 18,082 | | 27,909 |
| Equity securities | 29,891 | | | 29,891 |
| Total available for sale securities | 39,718 | 18,082 | | 57,800 |
| Trading securities | 101,331 | | | 101,331 |
| Warehouse receivables | | 1,048,340 | | 1,048,340 |
| Total assets at fair value | $ 141,049 | $ 1,066,422 | $ | $ 1,207,471 |
| *Liabilities* | | | | |
| Securities sold, not yet purchased | $ 54,103 | $ | $ | $ 54,103 |
| Interest rate swaps | | 48,022 | | 48,022 |
| Total liabilities at fair value | $ 54,103 | $ 48,022 | $ | $ 102,125 |

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

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

The fair values of the warehouse receivables are calculated based on already locked in security buy prices. At June 30, 2013 and December 31, 2012, all of the warehouse receivables included in the accompanying consolidated balance sheets were either under commitment to be purchased by Freddie Mac or had confirmed forward trade commitments for the issuance and purchase of Fannie Mae mortgage backed securities that will be secured by the underlying warehouse lines of credit. These assets are classified as Level 2 in the fair value hierarchy as all inputs are readily observable.

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

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counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with our adoption of ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of June 30, 2013, we have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 in the fair value hierarchy.

There were no significant non-recurring fair value measurements recorded during the three and six months ended June 30, 2013 and 2012.

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.

*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.

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

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

*Senior Secured Term Loans*: Based upon information from third-party banks (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our senior secured term loans was approximately $705.8 million and $1.6 billion at June 30, 2013 and December 31, 2012, respectively. Their actual carrying value totaled $705.1 million and $1.6 billion at June 30, 2013 and December 31, 2012, respectively (see Note 9).

*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 (see Note 9).

*5.00% Senior Notes*: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 5.00% senior notes was $756.0 million at June 30, 2013. Their actual carrying value totaled $800.0 million at June 30, 2013 (see Note 9).

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*6.625% Senior Notes*: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 6.625% senior notes was $371.0 million and $385.0 million at June 30, 2013 and December 31, 2012, respectively. Their actual carrying value totaled $350.0 million at both June 30, 2013 and December 31, 2012.

*11.625% Senior Subordinated Notes*: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 11.625% senior subordinated notes was $488.8 million at December 31, 2012. Their actual carrying value totaled $440.5 million at December 31, 2012. We redeemed these notes in full on June 15, 2013 (see Note 9).

*Notes Payable on Real Estate:* As of June 30, 2013 and December 31, 2012, the carrying value of our notes payable on real estate was $148.8 million and $326.0 million, respectively (see Note 8). These borrowings generally have floating interest rates at spreads over a market rate index. It is likely that some portion of our notes payable on real estate have fair values lower than actual carrying values. Given our volume of notes payable and the cost involved in estimating their fair value, we determined it was not practicable to do so. Additionally, only $14.0 million and $13.9 million of these notes payable were recourse to us as of June 30, 2013 and December 31, 2012, respectively.

**5. Investments in Unconsolidated Subsidiaries**

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