CBRE GROUP, INC.
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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	**94-3391143**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
400 South Hope Street, 25th Floor Los Angeles, California	**90071**
(Address of principal executive offices)	**(Zip Code)**
(213) 613-3333	**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 October 31, 2016 was 337,279,372.

FORM 10-Q

September 30, 2016

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CBRE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 446,346	$ 540,403
Restricted cash	70,755	72,764
Receivables, less allowance for doubtful accounts of $47,481 and $46,606 at September 30, 2016 and December 31, 2015, respectively	2,399,161	2,471,740
Warehouse receivables	1,642,394	1,767,107
Income taxes receivable	88,560	59,331
Prepaid expenses	195,179	172,922
Other current assets	213,082	220,956
Total Current Assets	5,055,477	5,305,223
Property and equipment, net	550,779	529,823
Goodwill	3,045,084	3,085,997
Other intangible assets, net of accumulated amortization of $727,183 and $589,236 at September 30, 2016 and December 31, 2015, respectively	1,414,831	1,450,469
Investments in unconsolidated subsidiaries	249,883	217,943
Deferred tax assets, net	106,349	135,252
Other assets, net	354,367	293,236
Total Assets	$ 10,776,770	$ 11,017,943
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,365,528	$ 1,484,119
Compensation and employee benefits payable	741,194	705,070
Accrued bonus and profit sharing	608,979	866,894
Income taxes payable	46,866	82,194
Short-term borrowings:		
Warehouse lines of credit (which fund loans that U.S. Government Sponsored Entities have committed to purchase)	1,619,091	1,750,781
Revolving credit facility	83,000	
Other	16	16

Total short-term borrowings	1,702,107	1,750,797
Current maturities of long-term debt	45,027	34,428
Other current liabilities	57,163	70,655
Total Current Liabilities	4,566,864	4,994,157
Long-term debt, net of current maturities	2,614,898	2,645,111
Deferred tax liabilities, net	85,355	100,361
Non-current tax liabilities	91,767	88,667
Other liabilities	436,383	430,577
Total Liabilities	7,795,267	8,258,873
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders Equity:		
Class A common stock; $0.01 par value; 525,000,000 shares authorized; 337,279,372 and 334,230,496 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	3,373	3,342
Additional paid-in capital	1,124,062	1,106,758
Accumulated earnings	2,392,931	2,088,227
Accumulated other comprehensive loss	(585,341)	(485,675)
Total CBRE Group, Inc. Stockholders Equity	2,935,025	2,712,652
Non-controlling interests	46,478	46,418
Total Equity	2,981,503	2,759,070
Total Liabilities and Equity	$ 10,776,770	$ 11,017,943

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

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue	$ 3,193,487	$ 2,712,559	$ 9,247,758	$ 7,155,568
Costs and expenses:				
Cost of services	2,252,783	1,773,660	6,520,629	4,552,411
Operating, administrative and other	686,530	626,905	2,010,338	1,768,838
Depreciation and amortization	92,725	75,047	269,987	215,498
Total costs and expenses	3,032,038	2,475,612	8,800,954	6,536,747
Gain on disposition of real estate	11,043	3,154	15,862	10,140
Operating income	172,492	240,101	462,666	628,961
Equity income from unconsolidated subsidiaries	24,672	17,242	116,902	39,386
Other income (loss)	1,356	(4,945)	8,453	(4,927)
Interest income	1,020	1,158	5,545	4,857
Interest expense	37,273	30,699	109,050	83,067
Write-off of financing costs on extinguished debt				2,685
Income before provision for income taxes	162,267	222,857	484,516	582,525
Provision for income taxes	51,414	72,866	165,578	206,243
Net income	110,853	149,991	318,938	376,282
Less: Net income attributable to non-controlling interests	6,690	868	10,940	9,193
Net income attributable to CBRE Group, Inc.	$ 104,163	$ 149,123	$ 307,998	$ 367,089
Basic income per share:				
Net income per share attributable to CBRE Group, Inc.	$ 0.31	$ 0.45	$ 0.92	$ 1.10
Weighted average shares outstanding for basic income per share	335,770,122	332,684,487	334,949,606	332,223,036
Diluted income per share:				

Net income per share attributable to CBRE Group, Inc.	$ 0.31	$ 0.44	$ 0.91	$ 1.09
Weighted average shares outstanding for diluted income per share	338,488,975	336,561,877	338,053,297	336,140,923

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

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$ 110,853	$ 149,991	$ 318,938	$ 376,282
Other comprehensive loss:				
Foreign currency translation loss	(15,940)	(69,728)	(101,654)	(117,640)
Fees associated with termination of interest rate swaps, net of tax		(3,748)		(3,748)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax	1,720	1,873	5,196	5,477
Unrealized gains (losses) on interest rate swaps, net of tax	788	(2,924)	(3,327)	(5,435)
Unrealized holding gains (losses) on available for sale securities, net of tax	348	(1,182)	993	(1,111)
Other, net	2	(18)	(757)	
Total other comprehensive loss	(13,082)	(75,727)	(99,549)	(122,457)
Comprehensive income	97,771	74,264	219,389	253,825
Less: Comprehensive income attributable to non-controlling interests	6,768	861	11,057	9,170
Comprehensive income attributable to CBRE Group, Inc.	$ 91,003	$ 73,403	$ 208,332	$ 244,655

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

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 318,938	$ 376,282
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	269,987	215,498
Gain on sale of loans, servicing rights and other assets	(134,775)	(105,178)
Amortization and write-off of financing costs on extinguished debt	8,302	9,703
Net realized and unrealized (gains) losses from investments	(8,453)	4,927
Gain on disposition of real estate held for investment	(9,901)	(8,573)
Equity income from unconsolidated subsidiaries	(116,902)	(39,386)
Provision for doubtful accounts	6,805	7,039
Compensation expense for equity awards	43,346	48,119
Incremental tax benefit from stock options exercised		(2,270)
Distribution of earnings from unconsolidated subsidiaries	19,982	22,900
Tenant concessions received	7,667	6,770
Purchase of trading securities	(76,136)	(64,442)
Proceeds from sale of trading securities	84,234	57,901
Decrease (increase) in receivables	46,275	(3,022)
Increase in prepaid expenses and other assets	(101,916)	(71,762)
Decrease (increase) in real estate held for sale and under development	2,870	(11,542)
(Decrease) increase in accounts payable and accrued expenses	(125,471)	4,490
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(210,670)	(269,396)
Increase in income taxes receivable/payable	(66,589)	(4,584)
Increase (decrease) in other liabilities	8,807	(12,800)
Other operating activities, net	(19,589)	(18,264)
Net cash (used in) provided by operating activities	(53,189)	142,410
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(134,357)	(85,324)
Acquisition of Global Workplace Solutions (GWS), including net assets acquired, intangibles and goodwill, net of cash acquired	(10,477)	(1,421,663)
Acquisition of businesses (other than GWS), including net assets acquired, intangibles and goodwill, net of cash acquired	(22,066)	(103,140)
Contributions to unconsolidated subsidiaries	(57,295)	(45,792)
Distributions from unconsolidated subsidiaries	119,539	42,738

Net proceeds from disposition of real estate held for investment	44,326	3,584
Proceeds from the sale of servicing rights and other assets	27,159	21,434
Increase in restricted cash	(1,623)	(41,864)
Purchase of available for sale securities	(31,413)	(31,919)
Proceeds from the sale of available for sale securities	29,560	33,063
Other investing activities, net	(2,974)	(3,063)
Net cash used in investing activities	(39,621)	(1,631,946)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior term loans		900,000
Repayment of senior term loans	(23,125)	(651,863)
Proceeds from revolving credit facility	2,195,000	2,107,500
Repayment of revolving credit facility	(2,112,000)	(1,711,512)
Proceeds from issuance of 4.875% senior notes, net		595,440
Proceeds from notes payable on real estate held for investment	7,274	
Repayment of notes payable on real estate held for investment	(33,516)	(1,173)
Proceeds from notes payable on real estate held for sale and under development	15,110	12,584
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	(483)	15,862
Shares repurchased for payment of taxes on equity awards	(27,796)	(24,517)
Proceeds from exercise of stock options	915	6,755
Incremental tax benefit from stock options exercised		2,270
Non-controlling interest contributions	1,478	4,691
Non-controlling interest distributions	(12,800)	(13,595)
Payment of financing costs	(5,601)	(30,130)
Other financing activities, net	(1,193)	(2,142)
Net cash (used in) provided by financing activities	(839)	1,210,170
Effect of currency exchange rate changes on cash and cash equivalents	(408)	(21,161)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(94,057)	(300,527)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	540,403	740,884
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 446,346	$ 440,357
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 118,272	$ 80,822
Income taxes, net	$ 225,129	$ 210,634

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

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, 2015	$ 3,342	$ 1,106,758	$ 2,088,227	$ (485,675)	$ 46,418	$ 2,759,070
Net income			307,998		10,940	318,938
Adoption of Accounting Standards Update 2016-09, net of tax (see Note 2)		4,975	(3,294)			1,681
Compensation expense for equity awards		43,346				43,346
Shares repurchased for payment of taxes on equity awards		(27,796)				(27,796)
Foreign currency translation (loss) gain				(101,771)	117	(101,654)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax				5,196		5,196
Unrealized losses on interest rate swaps, net of tax				(3,327)		(3,327)
Unrealized holding gains on available for sale securities, net of tax				993		993
Contributions from non-controlling interests					1,478	1,478
Distributions to non-controlling interests					(12,800)	(12,800)
Other	31	(3,221)		(757)	325	(3,622)
Balance at September 30, 2016	$ 3,373	$ 1,124,062	$ 2,392,931	$ (585,341)	$ 46,478	$ 2,981,503

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

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 nine months ended September 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

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation Stock Compensation (Topic 718): 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 elected to early adopt the provisions of ASU 2016-09 during the third quarter of 2016, which required us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The adoption of this ASU did not have a material impact on our consolidated financial statements.

ASU 2016-09 permits companies to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. We elected to change our accounting policy to recognize forfeitures when they occur and the impact of this change in accounting policy has been recorded as a $3.3 million cumulative effect adjustment to accumulated earnings as of January 1, 2016. Additionally, this ASU requires the recognition of excess tax benefits and deficiencies as income tax benefits or expenses in the income statement rather than to additional paid-in capital, which has been applied on a prospective basis to settlements of share-based payment awards occurring on or after January 1, 2016. ASU 2016-09 also requires that excess tax benefits be presented as operating activities on the statement of cash flows, which we have elected to apply on a prospective basis. The remaining provisions of ASU 2016-09 did not have an impact on our consolidated financial statements.

Recent Accounting Pronouncements Pending Adoption

The FASB has recently issued four 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 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, *Derivatives and Hedging (Topic 815): 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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In March 2016, the FASB issued ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): 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 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 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.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2016-15 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, plus adjustments totaling $46.5 million for working capital and other items.

The purchase accounting for the GWS Acquisition, including assignment of goodwill to our reporting units, has been finalized. There were no significant adjustments to the purchase price allocation recorded during the nine months ended September 30, 2016. The excess purchase price over the estimated fair value of net assets acquired of $858 million has been recorded to goodwill, with $406 million assigned to our Americas segment, $438 million assigned to our EMEA segment and $14 million assigned to our Asia Pacific segment. The goodwill arising from the GWS Acquisition consists largely of the synergies and economies of scale expected from combining the operations acquired from JCI with our business. Of the $858 million of goodwill recorded in connection with the GWS Acquisition, approximately $435 million is deductible for tax purposes.

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 nine months ended September 30, 2015, including $17.9 million and $53.8 million, respectively, of increased amortization expense as a result of intangible assets acquired in the GWS Acquisition, $9.7 million and $30.8 million, respectively, of additional interest expense as a result of debt incurred to finance the GWS Acquisition, the removal of $16.9 million and $24.9 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

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Revenue	$ 3,210,559	$ 9,272,568
Operating income	$ 258,417	$ 665,453
Net income attributable to CBRE Group, Inc.	$ 156,597	$ 372,285
Basic income per share:		
Net income per share attributable to CBRE Group, Inc.	$ 0.47	$ 1.12
Weighted average shares outstanding for basic income per share	332,684,487	332,223,036
Diluted income per share:		
Net income per share attributable to CBRE Group, Inc.	$ 0.47	$ 1.11
Weighted average shares outstanding for diluted income per share	336,561,877	336,140,923

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 September 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):

	September 30, 2016	December 31, 2015
Investments in unconsolidated subsidiaries	$ 26,965	$ 21,457
Other assets, current	3,721	3,723
Co-investment commitments	172	180
Maximum exposure to loss	$ 30,858	$ 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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 nine months ended September 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.

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

	As of September 30, 2016 Fair Value Measured and Recorded Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available for sale securities:				
Debt securities:				
U.S. treasury securities	$ 8,381	$	$	$ 8,381
Debt securities issued by U.S. federal agencies		5,409		5,409
Corporate debt securities		17,191		17,191
Asset-backed securities		2,900		2,900
Collateralized mortgage obligations		1,044		1,044
Total debt securities	8,381	26,544		34,925
Equity securities	23,265			23,265
Total available for sale securities	31,646	26,544		58,190
Trading securities	66,707			66,707
Warehouse receivables		1,642,394		1,642,394
Foreign currency exchange forward contracts		9,427		9,427
Total assets at fair value	$ 98,353	$ 1,678,365	$	$ 1,776,718
Liabilities				
Interest rate swaps	$	$ 18,873	$	$ 18,873
Securities sold, not yet purchased	3,123			3,123
Foreign currency exchange forward contracts		4,841		4,841
Total liabilities at fair value	$ 3,123	$ 23,714	$	$ 26,837

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CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	As of December 31, 2015 Fair Value Measured and Recorded Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
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
Liabilities				
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 nine months ended September 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, September 30, 2016	$

There were no significant non-recurring fair value measurements recorded during the three and nine months ended September 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.

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 $855.8 million and $878.6 million at September 30, 2016 and December 31, 2015, respectively. Their actual carrying value, net of unamortized debt issuance costs, totaled $856.7 million and $877.9 million at September 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 $853.5 million, $638.0 million and $458.1 million, respectively, at September 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 as well as unamortized discount or premium, if applicable, totaled $790.1 million, $591.0 million and $422.1 million, respectively, at September 30, 2016 and $789.1 million, $590.5 million and $422.0 million, respectively, at December 31, 2015.

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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 September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
Global Investment Management				
Revenue	$ 418,028	$ 221,245	$ 902,932	$ 728,144
Operating income (loss)	$ 93,491	$ (26,625)	$ 155,869	$ (107,351)
Net income (loss)	$ 52,477	$ 56,182	$ 118,348	$ (175,014)
Development Services				
Revenue	$ 26,179	$ 22,690	$ 57,255	$ 42,265
Operating income	$ 26,027	$ 13,316	$ 184,136	$ 54,664
Net income	$ 19,745	$ 9,812	$ 169,837	$ 47,299
Other				
Revenue	$ 40,292	$ 52,535	$ 106,807	$ 126,101
Operating income	$ 6,130	$ 10,961	$ 20,418	$ 25,592
Net income	$ 6,135	$ 11,126	$ 20,506	$ 26,027
Total				
Revenue	$ 484,499	$ 296,470	$ 1,066,994	$ 896,510
Operating income (loss)	$ 125,648	$ (2,348)	$ 360,423	$ (27,095)
Net income (loss)	$ 78,357	$ 77,120	$ 308,691	$ (101,688)

7. Long-Term Debt and Short-Term Borrowings

Long-Term Debt

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

	September 30, 2016	December 31, 2015
Senior term loans, with interest ranging from 1.39% to 2.12%, due quarterly through 2022	$ 865,000	$ 888,125
5.00% senior notes due in 2023	800,000	800,000
4.875% senior notes due in 2026, net of unamortized discount	595,824	595,568
5.25% senior notes due in 2025, net of unamortized premium	426,545	426,682
Other	36	63
Total long-term debt	2,687,405	2,710,438
Less: current maturities of long-term debt	(45,027)	(34,428)
Less: unamortized debt issuance costs	(27,480)	(30,899)
Total long-term debt, net of current maturities	$ 2,614,898	$ 2,645,111

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 September 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 12.09x for the trailing twelve months ended September 30, 2016, and our leverage ratio of total debt less available cash to EBITDA was 1.57x as of September 30, 2016.

On August 13, 2015, CBRE issued $600.0 million in aggregate principal amount of 4.875% senior notes due March 1, 2026 at a price equal to 99.24% of their face value. The 4.875% senior notes are unsecured obligations of CBRE, senior to all of its current and future subordinated indebtedness, but effectively subordinated to all of its current and future secured indebtedness. The 4.875% senior notes are jointly and severally guaranteed on a senior basis by us and each domestic subsidiary of CBRE that guarantees our 2015 Credit Agreement. Interest accrues at a rate of 4.875% per year and is payable semi-annually in arrears on March 1 and September 1, with the first interest payment made on March 1, 2016. The amount of the 4.875% senior notes, net of unamortized discount and unamortized debt issuance costs, included in the accompanying consolidated balance sheets was $591.0 million and $590.5 million at September 30, 2016 and December 31, 2015, respectively.

Short-Term Borrowings

Revolving Credit Facility

As of September 30, 2016, we had $83.0 million of revolving credit facility principal outstanding under the 2015 Credit Agreement with a weighted average annual interest rate of 3.5% and which was included in short-term borrowings in the accompanying consolidated balance sheets. As of September 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 nine months ended September 30, 2016, we had a maximum of $1.9 billion of warehouse lines of credit principal outstanding. As of September 30, 2016 and December 31, 2015, we had $1.6 billion and $1.8 billion, respectively, of warehouse lines of credit principal outstanding, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $1.6 billion and $1.8 billion of mortgage loans held for sale (warehouse receivables) as of September 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 $15.0 billion at September 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 September 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 $25.7 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 $847.2 million (including $652.2 million of warehouse receivables, a substantial majority of which are pledged against warehouse lines of credit and are therefore not available to Fannie Mae) at September 30, 2016.

We had outstanding letters of credit totaling $48.0 million as of September 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 September 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 September 2017.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We had guarantees totaling $56.9 million as of September 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 $56.9 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 September 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 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 September 30, 2016, we had aggregate commitments of $28.9 million to fund future co-investments.

Additionally, an important part of our Development Services business strategy is to invest in unconsolidated real estate subsidiaries as a principal (in most cases co-investing with our clients). As of September 30, 2016, we had committed to fund $24.2 million of additional capital to these unconsolidated subsidiaries.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic Income Per Share				
Net income attributable to CBRE Group, Inc. shareholders	$ 104,163	$ 149,123	$ 307,998	$ 367,089
Weighted average shares outstanding for basic income per share	335,770,122	332,684,487	334,949,606	332,223,036
Basic income per share attributable to CBRE Group, Inc. shareholders	$ 0.31	$ 0.45	$ 0.92	$ 1.10
Diluted Income Per Share				
Net income attributable to CBRE Group, Inc. shareholders	$ 104,163	$ 149,123	$ 307,998	$ 367,089
Weighted average shares outstanding for basic income per share	335,770,122	332,684,487	334,949,606	332,223,036
Dilutive effect of contingently issuable shares	2,707,401	3,747,524	3,070,134	3,701,801
Dilutive effect of stock options	11,452	129,866	33,557	216,086
Weighted average shares outstanding for diluted income per share	338,488,975	336,561,877	338,053,297	336,140,923
Diluted income per share attributable to CBRE Group, Inc. shareholders	$ 0.31	$ 0.44	$ 0.91	$ 1.09

For the three and nine months ended September 30, 2016, 1,972,360 and 1,704,848, 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.

For the three and nine months ended September 30, 2015, 743,638 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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 September 30,		Nine Months Ended September 30,	
	2016	2015 (1)	2016	2015 (1)
Revenue				
Americas	$ 1,770,369	$ 1,556,648	$ 5,129,684	$ 4,218,753
EMEA	956,492	737,863	2,765,825	1,817,601
Asia Pacific	358,320	285,337	1,023,162	755,531
Global Investment Management	91,807	114,094	277,924	318,371
Development Services	16,499	18,617	51,163	45,312
Total revenue	$ 3,193,487	$ 2,712,559	$ 9,247,758	$ 7,155,568
EBITDA				
Americas	$ 186,274	$ 197,379	$ 568,019	$ 581,397
EMEA	49,774	56,666	101,690	114,328
Asia Pacific	26,744	33,252	57,673	77,438
Global Investment Management	6,054	29,397	53,577	80,390
Development Services	15,709	9,883	66,109	16,172
Total EBITDA	$ 284,555	$ 326,577	$ 847,068	$ 869,725

(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.

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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 September 30,		**Nine Months Ended September 30,**	
	2016	**2015 (1)**	**2016**	**2015 (1)**
Americas				
Net income attributable to CBRE Group, Inc.	$ 69,176	$ 92,008	$ 231,158	$ 286,796
Add:				
Depreciation and amortization	62,545	47,209	186,342	134,750
Interest expense, net	21,492	9,692	64,583	17,485
Write-off of financing costs on extinguished debt				2,685
Royalty and management service income	(3,138)	(2,703)	(23,295)	(9,668)
Provision for income taxes	36,199	51,173	109,231	149,349
EBITDA	$ 186,274	$ 197,379	$ 568,019	$ 581,397
EMEA				
Net income attributable to CBRE Group, Inc.	$ 23,524	$ 24,535	$ 19,278	$ 24,921
Add:				
Depreciation and amortization	19,385	15,175	50,647	44,574
Interest expense, net	4,078	10,834	11,916	33,656
Royalty and management service (income) expense	(2,992)	(1,452)	685	(4,313)
Provision for income taxes	5,779	7,574	19,164	15,490
EBITDA	$ 49,774	$ 56,666	$ 101,690	$ 114,328
Asia Pacific				
Net income attributable to CBRE Group, Inc.	$ 11,576	$ 16,665	$ 14,068	$ 29,643
Add:				
Depreciation and amortization	4,479	3,728	12,957	11,357
Interest expense, net	1,250	800	1,292	2,689
Royalty and management service expense	5,277	3,581	19,629	11,342

Provision for income taxes	4,162	8,478	9,727	22,407
EBITDA	$ 26,744	$ 33,252	$ 57,673	$ 77,438

Global Investment Management				
Net (loss) income attributable to CBRE Group, Inc.	$ (7,830)	$ 10,717	$ 7,635	$ 18,546
Add:				
Depreciation and amortization	5,673	8,423	18,110	23,095
Interest expense, net	7,611	8,060	23,124	23,562
Royalty and management service expense	853	574	2,981	2,639
(Benefit of) provision for income taxes	(253)	1,623	1,727	12,548
EBITDA	$ 6,054	$ 29,397	$ 53,577	$ 80,390

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 (1)	2016	2015 (1)
Development Services				
Net income attributable to CBRE Group, Inc.	$ 7,717	$ 5,198	$ 35,859	$ 7,183
Add:				
Depreciation and amortization	643	512	1,931	1,722
Interest expense, net	1,822	155	2,590	818
Provision for income taxes	5,527	4,018	25,729	6,449
EBITDA	$ 15,709	$ 9,883	$ 66,109	$ 16,172

(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 September 30, 2016 and December 31, 2015, condensed consolidating statements of operations and condensed consolidating statements of comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015 and condensed consolidating statements of cash flows for the nine months ended September 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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2016

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 5	$ 12,487	$ 24,015	$ 409,839	$	$ 446,346
Restricted cash			6,966	63,789		70,755
Receivables, net			932,035	1,467,126		2,399,161
Warehouse receivables (1)			976,721	665,673		1,642,394
Income taxes receivable	1,287	1,043	21,373	64,857		88,560
Prepaid expenses			76,532	118,647		195,179
Other current assets		9,377	62,490	141,215		213,082
Total Current Assets	1,292	22,907	2,100,132	2,931,146		5,055,477
Property and equipment, net			388,208	162,571		550,779
Goodwill			1,647,160	1,397,924		3,045,084
Other intangible assets, net			797,362	617,469		1,414,831
Investments in unconsolidated subsidiaries			199,721	50,162		249,883
Investments in consolidated subsidiaries	4,104,563	4,103,473	2,428,313		(10,636,349)	
Intercompany loan receivable		2,729,242	700,000		(3,429,242)	
Deferred tax assets, net			61,372	84,450	(39,473)	106,349
Other assets, net		23,521	229,904	100,942		354,367
Total Assets	$ 4,105,855	$ 6,879,143	$ 8,552,172	$ 5,344,664	$ (14,105,064)	$ 10,776,770
LIABILITIES AND EQUITY						
Current Liabilities:						
Accounts payable and accrued expenses	$	$ 7,351	$ 396,882	$ 961,295	$	$ 1,365,528
Compensation and employee benefits payable		626	397,483	343,085		741,194

Accrued bonus and profit sharing			361,649	247,330		608,979
Income taxes payable				46,866		46,866
Short-term borrowings:						
Warehouse lines of credit (which fund loans that U.S. Government Sponsored Entities have committed to purchase) (1)			969,180	649,911		1,619,091
Revolving credit facility		83,000				83,000
Other			16			16
Total short-term borrowings		83,000	969,196	649,911		1,702,107
Current maturities of long-term debt		45,000		27		45,027
Other current liabilities		4,841	40,047	12,275		57,163
Total Current Liabilities		140,818	2,165,257	2,260,789		4,566,864
Long-Term Debt, net:						
Long-term debt, net		2,614,889		9		2,614,898
Intercompany loan payable	1,170,830		1,949,876	308,536	(3,429,242)	
Total Long-Term Debt, net	1,170,830	2,614,889	1,949,876	308,545	(3,429,242)	2,614,898
Deferred tax liabilities, net				124,828	(39,473)	85,355
Non-current tax liabilities			91,350	417		91,767
Other liabilities		18,873	242,216	175,294		436,383
Total Liabilities	1,170,830	2,774,580	4,448,699	2,869,873	(3,468,715)	7,795,267
Commitments and contingencies						
Equity:						
CBRE Group, Inc. Stockholders Equity	2,935,025	4,104,563	4,103,473	2,428,313	(10,636,349)	2,935,025
Non-controlling interests				46,478		46,478
Total Equity	2,935,025	4,104,563	4,103,473	2,474,791	(10,636,349)	2,981,503
Total Liabilities and Equity	$ 4,105,855	$ 6,879,143	$ 8,552,172	$ 5,344,664	$ (14,105,064)	$ 10,776,770

(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, N.A. (TD Bank), JP Morgan Chase Bank, N.A. (JP Morgan), Fannie Mae ASAP, Bank of America (BofA) and Capital One, N.A. (Capital One) lines of credit are pledged to TD Bank, JP Morgan, Fannie Mae, BofA and Capital One, and accordingly, are not included as collateral for these notes or our other outstanding debt.

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
ASSETS						
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
Total Current Assets	25,917	24,080	2,561,748	2,725,755	(32,277)	5,305,223
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
Total Assets	$ 3,725,559	$ 6,433,925	$ 8,906,732	$ 5,171,453	$ (13,219,726)	$ 11,017,943
LIABILITIES AND EQUITY						
Current Liabilities:						
Accounts payable and accrued expenses	$	$ 31,616	$ 395,509	$ 1,056,994	$	$ 1,484,119
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.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$	$ 1,611,836	$ 1,581,651	$	$ 3,193,487
Costs and expenses:						
Cost of services			1,149,943	1,102,840		2,252,783
Operating, administrative and other	1,165	(158)	353,420	332,103		686,530
Depreciation and amortization			54,423	38,302		92,725
Total costs and expenses	1,165	(158)	1,557,786	1,473,245		3,032,038
Gain on disposition of real estate				11,043		11,043
Operating (loss) income	(1,165)	158	54,050	119,449		172,492
Equity income from unconsolidated subsidiaries			24,287	385		24,672
Other income			278	1,078		1,356
Interest income		33,550	592	428	(33,550)	1,020
Interest expense		34,809	24,921	11,093	(33,550)	37,273
Royalty and management service (income) expense			(2,972)	2,972		
Income from consolidated subsidiaries	104,881	105,560	65,474		(275,915)	
Income before (benefit of) provision for income taxes	103,716	104,459	122,732	107,275	(275,915)	162,267
(Benefit of) provision for income taxes	(447)	(422)	17,172	35,111		51,414
Net income	104,163	104,881	105,560	72,164	(275,915)	110,853
Less: Net income attributable to non-controlling interests				6,690		6,690

Net income attributable to CBRE Group, Inc.	$ 104,163	$ 104,881	$ 105,560	$ 65,474	$ (275,915)	$ 104,163

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(Dollars in thousands)

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenue	$	$	$ 1,467,392	$ 1,245,167	$	$ 2,712,559
Costs and expenses:						
Cost of services			965,317	808,343		1,773,660
Operating, administrative and other	19,466	(9,499)	322,593	294,345		626,905
Depreciation and amortization			40,737	34,310		75,047
Total costs and expenses	19,466	(9,499)	1,328,647	1,136,998		2,475,612
Gain on disposition of real estate			3,087	67		3,154
Operating (loss) income	(19,466)	9,499	141,832	108,236		240,101
Equity income from unconsolidated subsidiaries			16,346	896		17,242
Other income (loss)			77	(5,022)		(4,945)
Interest income		43,535	577	581	(43,535)	1,158
Interest expense		29,857	28,456	15,921	(43,535)	30,699
Royalty and management service (income) expense			(400)	400		
Income from consolidated subsidiaries	160,973	146,587	62,936		(370,496)	
Income before (benefit of) provision for income taxes	141,507	169,764	193,712	88,370	(370,496)	222,857
(Benefit of) provision for income taxes	(7,616)	8,791	47,125	24,566		72,866
Net income	149,123	160,973	146,587	63,804	(370,496)	149,991
Less: Net income attributable to non-controlling interests				868		868

Net income attributable to CBRE Group, Inc.	$ 149,123	$ 160,973	$ 146,587	$ 62,936	$ (370,496)	$ 149,123