CB RICHARD ELLIS GROUP INC
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

o **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

CB RICHARD ELLIS GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-3391143** (I.R.S. Employer Identification Number)
11150 Santa Monica Boulevard, Suite 1600 **Los Angeles, California** (Address of principal executive offices)	**90025** (Zip Code)
(310) 405-8900 (Registrant's telephone number, including area code)	(Former name, former address and former fiscal year if changed since last report)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

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

The number of shares of Class A common stock outstanding at October 31, 2007 was 230,133,695.

FORM 10-Q

September 30, 2007

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CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 435,207	$ 244,476
Restricted cash	74,771	212,938
Receivables, less allowance for doubtful accounts of $33,151 and $22,190 at September 30, 2007 and December 31, 2006, respectively	959,017	880,809
Warehouse receivables	450,863	103,992
Prepaid expenses	87,567	74,303
Deferred tax assets, net	199,316	143,024
Real estate under development	64,273	16,851
Real estate and other assets held for sale	231,872	185,832
Trading securities	2,829	355,503
Other current assets	70,554	71,217
Total Current Assets	2,576,269	2,288,945
Property and equipment, net	194,308	180,546
Goodwill	2,220,752	2,188,352
Other intangible assets, net of accumulated amortization of $92,248 and $55,065 at September 30, 2007 and December 31, 2006, respectively	408,282	441,073
Deferred compensation assets	255,029	203,271
Investments in and advances to unconsolidated subsidiaries	244,144	227,799
Real estate under development	194,751	113,040
Real estate held for investment	246,193	149,976
Other assets, net	143,913	151,629
Total Assets	$ 6,483,641	$ 5,944,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 427,615	$ 478,452
Deferred purchase consideration	35,613	159,676
Compensation and employee benefits payable	343,863	330,826
Accrued bonus and profit sharing	504,069	524,184
Income taxes payable	25,146	48,576
Short-term borrowings:		
Warehouse lines of credit	450,863	103,992
Revolving credit facility	43,268	
Other	62,594	22,216
Total short-term borrowings	556,725	126,208
Current maturities of long-term debt	11,443	11,836
Notes payable on real estate	146,301	64,279
Liabilities related to real estate and other assets held for sale	147,790	160,719
Other current liabilities	7,208	35,961
Total Current Liabilities	2,205,773	1,940,717
Long-Term Debt:		
Senior secured term loans	1,778,750	2,062,000
9 3/4% senior notes		3,310
Other long-term debt	1,404	1,363
Total Long-Term Debt	1,780,154	2,066,673

	September 30, 2007	December 31, 2006
Deferred compensation liability	268,186	225,179
Deferred tax liabilities, net	4,906	80,603
Pension liability	22,076	57,971
Non-current tax liabilities	82,013	
Notes payable on real estate	229,744	132,277
Other liabilities	168,997	181,434
Total Liabilities	4,761,849	4,684,854
Commitments and contingencies		
Minority interest	198,686	78,136
Stockholders' Equity:		
Class A common stock; $0.01 par value; 325,000,000 shares authorized; 230,088,769 and 227,474,835 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	2,301	2,275
Additional paid-in capital	664,881	610,406
Notes receivable from sale of stock	(60)	(60)
Accumulated earnings	841,084	602,086
Accumulated other comprehensive income (loss)	14,900	(33,066)
Total Stockholders' Equity	1,523,106	1,181,641
Total Liabilities and Stockholders' Equity	$ 6,483,641	$ 5,944,631

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

CB RICHARD ELLIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	$ 1,492,809	$ 967,941	$ 4,197,133	$ 2,622,757
Costs and expenses:				
Cost of services	791,852	521,059	2,233,130	1,412,497
Operating, administrative and other	468,375	293,122	1,350,066	841,881
Depreciation and amortization	28,311	14,892	83,190	42,077
Merger-related charges	5,092		39,824	
Total costs and expenses	1,293,630	829,073	3,706,210	2,296,455
Gain on disposition of real estate	16,075		16,075	
Operating income	215,254	138,868	506,998	326,302
Equity income from unconsolidated subsidiaries	6,020	9,135	36,184	25,976
Minority interest expense (income)	9,692	(577)	12,427	1,232
Other loss			37,534	
Interest income	7,937	1,002	20,922	7,568
Interest expense	40,417	7,468	124,572	34,755
Loss on extinguishment of debt				22,255
Income before provision for income taxes	179,102	142,114	389,571	301,604
Provision for income taxes	64,155	49,805	121,512	108,131
Net income	$ 114,947	$ 92,309	$ 268,059	$ 193,473
Basic income per share	$ 0.50	$ 0.41	$ 1.16	$ 0.86
Weighted average shares outstanding for basic income per share	230,997,817	226,749,704	230,406,342	226,095,680
Diluted income per share	$ 0.48	$ 0.39	$ 1.13	$ 0.83
Weighted average shares outstanding for diluted income per share	237,450,864	233,943,772	237,291,116	233,519,809

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

CB RICHARD ELLIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 268,059	$ 193,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83,190	42,077
Amortization and write-off of deferred financing costs	5,883	14,351
Amortization and write-off of long-term debt discount		1,648
Deferred compensation deferrals	32,344	24,958
Gain on sale of servicing rights and other assets	(6,152)	(8,425)
Loss on trading securities	33,654	
Loss on interest rate swaps	3,880	
Equity income from unconsolidated subsidiaries	(36,184)	(25,976)
Distribution of earnings from unconsolidated subsidiaries	39,681	18,421
In-kind distributions from unconsolidated subsidiaries	(2,710)	
Minority interest expense	12,427	1,232
Provision for doubtful accounts	15,132	1,810
Deferred income taxes	(1,729)	(16,604)
Compensation expense and merger-related expense related to stock options and stock awards	28,583	7,656
Incremental tax benefit from stock options exercised	(15,876)	(17,350)
Tenant concessions received	11,072	6,734
Proceeds from sale of trading securities	320,047	
Increase in receivables	(18,061)	(9,816)
Increase in deferred compensation assets	(51,758)	(39,951)
Increase in prepaid expenses and other assets	(9,294)	(37,713)
Increase in real estate held for sale and under development	(175,706)	
Increase in notes payable on real estate held for sale and under development	120,553	
Decrease in accounts payable and accrued expenses	(93,302)	(29,735)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(52,120)	(39,629)
Decrease in income taxes payable	(105,411)	(21,225)
Increase in other liabilities	3,161	20,707
Other operating activities, net	615	(232)
Net cash provided by operating activities	409,978	86,411
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(50,271)	(37,994)
Acquisition of businesses (other than Trammell Crow Company) including net assets acquired, intangibles and goodwill, net of cash acquired	(80,640)	(89,793)
Cash paid for acquisition of Trammell Crow Company	(124,923)	
Contributions to investments in unconsolidated subsidiaries, net	(32,474)	(13,047)
Proceeds from the sale of servicing rights and other assets	29,738	7,992
Additions to real estate held for investment	(107,739)	
Decrease (increase) in restricted cash	138,431	(3,522)
Other investing activities, net	14,722	489
Net cash used in investing activities	(213,156)	(135,875)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(283,250)	(265,250)
Proceeds from revolving credit facility	73,186	511,981
Repayment of revolving credit facility	(34,638)	(372,374)
Repayment of 11 1/4% senior subordinated notes		(164,669)
Repayment of 9 3/4% senior notes	(3,310)	
Proceeds from notes payable on real estate held for investment	82,529	
Repayment of notes payable on real estate held for investment	(15,732)	
Proceeds from (repayment of) short-term borrowings and other loans, net	40,238	(5,148)
Proceeds from exercise of stock options	9,114	7,576
Incremental tax benefit from stock options exercised	15,876	17,350

	Nine Months Ended September 30,	
Minority interest contributions, net	105,614	10,292
Payment of deferred financing fees	(4,033)	(5,159)
Other financing activities, net	(837)	(652)
Net cash used in financing activities	(15,243)	(266,053)
Effect of currency exchange rate changes on cash and cash equivalents	9,152	4,501
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,731	(311,016)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	244,476	449,289
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 435,207	$ 138,273
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 113,568	$ 38,742
Income taxes, net of refunds	$ 227,104	$ 147,208

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

CB RICHARD ELLIS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations

CB Richard Ellis Group, Inc. (formerly known as CBRE Holding, Inc.), a Delaware corporation (which may be referred to in these financial statements as "we," "us," and "our"), was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international commercial real estate services firm. Prior to July 20, 2001, we were a wholly-owned subsidiary of Blum Strategic Partners, L.P. (Blum Strategic), formerly known as RCBA Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. (Insignia). On July 23, 2003, pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 28, 2003 (the Insignia Acquisition Agreement), by and among us, CBRE, Apple Acquisition Corp. (Apple Acquisition), a Delaware corporation and wholly-owned subsidiary of CBRE, and Insignia, Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the Insignia Acquisition and at the effective time of the Insignia Acquisition became a wholly-owned subsidiary of CBRE.

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock (the IPO). In connection with the IPO, we issued and sold 23,180,292 shares of our Class A common stock and received aggregate net proceeds of approximately $135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 48,819,708 shares of our Class A common stock and received net proceeds of approximately $290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 687,900 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately $4.1 million, after deducting underwriting discounts and commissions. Lastly, on December 13, 2004 and November 15, 2005, we completed secondary public offerings that provided further liquidity for some of our stockholders. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004, July 14, 2004, December 13, 2004 and November 15, 2005.

In December 2006, we expanded our global leadership as we completed the acquisition of Trammell Crow Company, our largest acquisition to date. On December 20, 2006, pursuant to an Agreement and Plan of Merger dated October 30, 2006 (the Trammell Crow Company Acquisition Agreement), by and among us, A-2 Acquisition Corp., a Delaware corporation and our wholly-owned subsidiary (Merger Sub), and Trammell Crow Company, the Merger Sub was merged with and into the Trammell Crow Company (the Trammell Crow Company Acquisition). Trammell Crow Company was the surviving corporation in the Trammell Crow Company Acquisition and upon the closing of the Trammell Crow Company Acquisition became our indirect wholly-owned subsidiary. We have no substantive operations other than our investment in CBRE and Trammell Crow Company.

We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets globally under the "CB Richard Ellis" brand name and provide development services under the "Trammell Crow" brand name. Our business is focused on several service competencies, including tenant representation, property/agency leasing, property sales, development services, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, commercial property and corporate facilities management, valuation, proprietary research and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) 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 that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates. All significant inter-company transactions and balances have been eliminated, and certain reclassifications have been made to prior periods' consolidated financial statements to conform to the current period presentation. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2007. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our current Annual Report on Form 10-K, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2006.

Pursuant to Emerging Issues Task Force (EITF) Issue No. 01-14*, "Income Statement Characterization of Reimbursements Received for "Out of Pocket' Expenses Incurred,"* and EITF Issue No. 99-19, *"Reporting Revenue Gross as a Principal versus Net as an Agent,"* we concluded that the accounting for certain reimbursements (primarily salaries and related charges) related to our facilities and property management operations should be presented on a grossed up versus a net expense basis. Accordingly, we reclassified such reimbursements from cost of services to revenue for the three and nine months ended September 30, 2006 to be consistent with the presentation for the three and nine months ended September 30, 2007. As a result, amounts reflected as "Revenue" and "Cost of services" in the consolidated statements of operations for the three and nine months ended September 30, 2006 have been increased from the amounts previously reported by $64.1 million and $202.6 million, respectively. This reclassification had no impact on operating income, net income, earnings per share or stockholders' equity.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*," or SFAS No. 150. Certain provisions of SFAS No. 150 would have required us to classify non-controlling interests in consolidated limited life subsidiaries as liabilities adjusted to their settlement values in our consolidated financial statements. In November 2003, the

FASB indefinitely deferred application of the measurement and recognition provisions (but not the disclosure requirements) of SFAS No. 150 with respect to these non-controlling interests. As of September 30, 2007, the estimated settlement value of non-controlling interests in our consolidated limited life subsidiaries was $122.7 million, as compared to the carrying value of $117.5 million, which is included in minority interest in the accompanying consolidated balance sheets. As of December 31, 2006, the estimated settlement value of non-controlling interests in our consolidated limited life subsidiaries was not significant since the majority of the assets of our consolidated limited life subsidiaries were acquired in 2007.

In the third quarter of 2007, an entity in which we have an interest contributed land to a limited liability company (LLC) in which we are the managing member. The LLC was formed to develop a retail shopping center. Based upon our evaluation of the LLC, we concluded the LLC is a variable interest entity in accordance with FASB Interpretation No. 46 (revised December 2003), "*Consolidation of Variable Interest Entities an Interpretation of ARB No. 51*" and we consolidated the LLC as its primary beneficiary. Included in our accompanying consolidated balance sheets as of September 30, 2007 is the LLC's notes payable balance of $37.6 million, which is non-recourse to us and secured by the underlying real estate of $38.3 million, which is included in non-current real estate under development.

3. Trammell Crow Company Acquisition

On December 20, 2006, pursuant to the Trammell Crow Company Acquisition Agreement, by and among us, Merger Sub (our wholly-owned subsidiary) and Trammell Crow Company, the Merger Sub was merged with and into Trammell Crow Company. Trammell Crow Company was the surviving corporation in the Trammell Crow Company Acquisition and upon the closing of the Trammell Crow Company Acquisition became our indirect wholly-owned subsidiary. We acquired Trammell Crow Company to expand our global leadership and to strengthen our ability to provide integrated account management and comprehensive real estate services for our clients.

Pursuant to the terms of the Trammell Crow Company Acquisition Agreement, (1) each issued and outstanding share of Trammell Crow Company Common Stock (other than treasury shares), par value $0.01 per share, was converted into the right to receive $49.51 in cash, without interest (the Trammell Crow Company Common Stock Merger Consideration), (2) all outstanding options to acquire Trammell Crow Company Common Stock were cancelled and represented the right to receive a cash payment, without interest, equal to the excess, if any, of the Trammell Crow Company Common Stock Merger Consideration over the per share exercise price of the option, multiplied by the number of shares of Trammell Crow Company Common Stock subject to the option, less any applicable withholding taxes and (3) all outstanding stock units with underlying shares of Trammell Crow Company Common Stock held in the Trammell Crow Company Employee Stock Purchase Plan were converted into the right to receive $49.51 in cash, without interest. Following the Trammell Crow Company Acquisition, the Trammell Crow Company Common Stock was delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934.

The funding to complete the Trammell Crow Company Acquisition, as well as the refinancing of substantially all of the outstanding indebtedness of Trammell Crow Company (other than notes payable on real estate), was obtained through senior secured term loan facilities for an aggregate principal amount of up to $2.2 billion (see Note 10).

The aggregate preliminary purchase price for the Trammell Crow Company Acquisition was approximately $1.9 billion, which includes: (1) $1.8 billion in cash paid for shares of Trammell Crow Company's outstanding common stock, at $49.51 per share, including outstanding stock units held in the Trammell Crow Company Employee Stock Purchase Plan, (2) cash payments of $120.0 million to holders of Trammell Crow Company's vested options and (3) $18.7 million of direct costs incurred in connection with the acquisition, consisting mostly of legal and accounting fees. The preliminary purchase accounting adjustments related to the Trammell Crow Company Acquisition have been recorded in the accompanying consolidated financial statements as of, and for periods subsequent to, December 20, 2006. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. The goodwill is not deductible for tax purposes. The final valuation of the net assets acquired is expected to be completed as soon as practicable, but no later than one year from the acquisition date. Given the size and complexity of the acquisition, the fair valuation of certain assets acquired, primarily other intangible assets, investments in and advances to unconsolidated subsidiaries and deferred tax assets, is still preliminary. Additionally, the various real estate assets acquired are being reflected at Trammell Crow Company's historical basis until the appraisal process has been completed. Lastly, adjustments to the estimated liabilities assumed in connection with the Trammell Crow Company Acquisition, as well as deferred tax liabilities and minority interest, may still be required. As of September 30, 2007, approximately $35.6 million of the total purchase price (excluding direct costs) has not been paid out and is included in restricted cash in the accompanying consolidated balance sheets along with a corresponding current liability of $35.6 million, which is included in deferred purchase consideration in the accompanying consolidated balance sheets. These amounts relate to outstanding shares of Trammell Crow Company common stock that have not yet been tendered. Payment in full will be made as share certificates are tendered.

The Trammell Crow Company Acquisition gave rise to the acceleration of vesting of some restricted shares of Trammell Crow Company common stock as a result of the change in control of Trammell Crow Company as well as costs associated with exiting contracts and other contractual obligations. Additionally, the Trammell Crow Company Acquisition has given rise to the consolidation and elimination of some Trammell Crow Company duplicate facilities and redundant employees as well as lawsuits involving Trammell Crow Company. As a result, we have accrued certain liabilities in accordance with EITF Issue No. 95-3, *"Recognition of Liabilities in Connection with a Purchase Business*

Combination." These liabilities assumed in connection with the Trammell Crow Company Acquisition consist of the following (dollars in thousands):

	2006 Charge to Goodwill	2006 Utilization	2007 Adjustments	2007 Utilization	To be Utilized at September 30, 2007
Change of control payments	$ 36,461	$ (35,727)	$	$ (734)	$
Costs associated with exiting contracts and other contractual obligations	29,635	(500)	(2,379)	(16,616)	10,140
Severance	18,422		2,374	(11,431)	9,365
Lease termination costs	11,085		(151)	(2,801)	8,133
Legal settlements anticipated	6,212		(599)	(1,583)	4,030
	$ 101,815	$ (36,227)	$ (755)	$ (33,165)	$ 31,668

Unaudited pro forma results, assuming the Trammell Crow Company Acquisition had occurred as of January 1, 2006, for the three and nine months ended September 30, 2006 are presented below. These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as increased amortization expense as a result of intangible assets acquired in the Trammell Crow Company Acquisition as well as higher interest expense as a result of debt incurred to finance the Trammell Crow Company Acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the Trammell Crow Company Acquisition occurred on January 1, 2006 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenue	$ 1,214,256	$ 3,323,908
Operating income	145,046	309,133
Net income	77,179	124,976
Basic income per share	$ 0.34	$ 0.55
Weighted average shares outstanding for basic income per share	226,749,704	226,095,680
Diluted income per share	$ 0.33	$ 0.53
Weighted average shares outstanding for diluted income per share	233,943,772	233,519,809

4. Restricted Cash

Included in the accompanying consolidated balance sheets as of September 30, 2007 and December 31, 2006, is restricted cash of $74.8 million and $212.9 million, respectively, which includes restricted cash set aside to cover deferred purchase consideration associated with the Trammell Crow Company Acquisition. The deferred purchase consideration relates to outstanding shares of Trammell Crow Company common stock that have not yet been tendered. Payment in full is being made as share certificates are tendered. The restricted cash balances also include escrow accounts acquired as a result of the Trammell Crow Company Acquisition as well as other strategic in-fill acquisitions completed during 2006 and 2007 and cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the United Kingdom (U.K.).

5. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended September 30, 2007 (dollars in thousands):

	Americas	EMEA	Asia Pacific	Global Investment Management	Development Services	Total
Balance at January 1, 2007	$ 1,717,334	$ 327,858	$ 32,081	$ 38,162	$ 72,917	$ 2,188,352
Purchase accounting adjustments related to acquisitions	(17,641)	4,333	45,700		(8,745)	23,647
Adoption of FIN 48 (see Note 22)	(5,359)					(5,359)
Foreign exchange movement	1,538	7,707	4,660	207		14,112
Balance at September 30, 2007	$ 1,695,872	$ 339,898	$ 82,441	$ 38,369	$ 64,172	$ 2,220,752

Other intangible assets totaled $408.3 million and $441.1 million, net of accumulated amortization of $92.2 million and $55.1 million, as of September 30, 2007 and December 31, 2006, respectively, and are comprised of the following (dollars in thousands):

	As of September 30, 2007		As of December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortizable intangible assets				
Trademarks	$ 63,700		$ 63,700	
Trade name	103,826		103,826	
	$ 167,526		$ 167,526	
Amortizable intangible assets				
Customer relationships	$ 220,000	$ (8,953)	$ 220,000	$ (60)
Backlog and incentive fees	47,216	(40,754)	44,630	(18,780)
Management contracts	29,691	(24,694)	28,585	(21,333)
Loan servicing rights	22,296	(10,567)	22,143	(9,365)
Other	13,801	(7,280)	13,254	(5,527)
	$ 333,004	$ (92,248)	$ 328,612	$ (55,065)
Total intangible assets	$ 500,530	$ (92,248)	$ 496,138	$ (55,065)

In accordance with SFAS No. 141, "*Business Combinations*," trademarks of $63.7 million were separately identified as a result of the 2001 Merger. As a result of the Insignia Acquisition, a $19.8 million trade name was separately identified, which represents the Richard Ellis trade name in the U.K. that was owned by Insignia. In connection with the Trammell Crow Company Acquisition, an

$84.0 million trade name was separately identified, which represents the Trammell Crow trade name to be used in providing development services by us on an indefinite basis. Both the trademarks and the trade names have indefinite useful lives and accordingly are not being amortized.

Customer relationships represent intangible assets identified in the Trammell Crow Company Acquisition relating to existing relationships primarily in Trammell Crow Company's brokerage, property management, project management and facilities management lines of business. These intangible assets are being amortized over useful lives of up to 20 years.

Backlog and incentive fees represent the fair value of net revenue backlog and incentive fees acquired as part of the Trammell Crow Company Acquisition as well as other in-fill acquisitions. These intangible assets are being amortized over useful lives of up to one year.

Management contracts are primarily comprised of property management contracts in the United States (U.S.), Canada, the U.K. and France, as well as valuation services and fund management contracts in the U.K. These management contracts are being amortized over useful lives of up to ten years.

Loan servicing rights represent the fair value of servicing assets in our mortgage brokerage line of business in the U.S., the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over useful lives of up to ten years.

Other amortizable intangible assets mainly represent other intangible assets acquired as a result of the Trammell Crow Company Acquisition and Insignia Acquisition. These include certain acquired Trammell Crow Company contract intangibles. Additionally, these include other intangible assets recognized for non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France acquired in the Insignia Acquisition. All other intangible assets are being amortized over useful lives of up to 20 years.

Amortization expense related to intangible assets was $11.6 million and $3.2 million for the three months ended September 30, 2007 and 2006, respectively, and $35.4 million and $10.1 million for the nine months ended September 30, 2007 and 2006, respectively. The estimated annual amortization expense for each of the years ending December 31, 2007 through December 31, 2011 approximates $46.6 million, $17.1 million, $15.8 million, $15.5 million and $14.3 million, respectively.

6. Investments in and Advances to Unconsolidated Subsidiaries

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Development Services:				
Revenue	$ 15,439	$	$ 42,544	$
Operating income	$ 4,630	$	$ 35,969	$
Net (loss) income	$ (551)	$	$ 21,162	$
Other:				
Revenue	$ 125,927	$ 174,449	$ 568,852	$ 432,823
Operating income	$ 28,140	$ 35,380	$ 90,398	$ 91,936
Net income	$ 179,176	$ 105,467	$ 233,857	$ 210,496
Total:				
Revenue	$ 141,366	$ 174,449	$ 611,396	$ 432,823
Operating income	$ 32,770	$ 35,380	$ 126,367	$ 91,936
Net income	$ 178,625	$ 105,467	$ 255,019	$ 210,496

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

In connection with the Trammell Crow Company Acquisition, we acquired Trammell Crow Company's investments in unconsolidated subsidiaries. We have agreements to provide development and brokerage services to certain of our unconsolidated development subsidiaries on an arm's length basis and earned revenues from these unconsolidated subsidiaries.

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

Real estate and other assets held for sale include completed real estate projects or land for sale in their present condition that have met all of the "held for sale" criteria of SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets,*" and other assets directly related to such projects. Liabilities related to real estate and other assets held for sale have been included as a single line item in the accompanying consolidated balance sheets. In accordance with SFAS No. 144, certain assets classified as held for sale at September 30, 2007, or sold in the nine months ended September 30, 2007, that were not classified as held for sale at December 31, 2006, were reclassified to real estate and other assets held for sale in the accompanying consolidated balance sheets as of December 31, 2006.

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

	September 30, 2007	December 31, 2006
Assets:		
Real estate held for sale (see Note 8)	$ 221,694	$ 179,991
Other current assets	4,129	4,030
Other assets	6,049	1,811
Total real estate and other assets held for sale	231,872	185,832
Liabilities:		
Accrued expenses	8,487	9,217
Notes payable on real estate held for sale (see Note 9)	138,147	150,477
Other current liabilities	111	188
Other liabilities	1,045	837
Total liabilities related to real estate and other assets held for sale	147,790	160,719
Net real estate and other assets held for sale	$ 84,082	$ 25,113

8. Real Estate

We provide build-to-suit services for our clients and also develop or purchase certain projects which we intend to sell to institutional investors upon project completion or redevelopment. Therefore, we have ownership of real estate until such projects are sold. Certain real estate assets owned by us secure the outstanding balances of underlying mortgage or construction loans. The majority of our real estate is included in our Development Services segment (see Note 21). Real estate owned by us consisted of the following (dollars in thousands):

	September 30, 2007	December 31, 2006
Real estate under development (current)	$ 64,273	$ 16,851
Real estate included in assets held for sale (see Note 7)	221,694	179,991
Real estate under development (non-current)	194,751	113,040
Real estate held for investment (1)	246,193	149,976
Total real estate (2)	$ 726,911	$ 459,858

(1) Net of accumulated depreciation of $3.2 million at September 30, 2007.

(2) Includes balances for lease intangibles and tenant origination costs of $6.4 million and $4.1 million, respectively, at September 30, 2007 and $2.6 million and $3.0 million, respectively, at December 31, 2006. We record lease intangibles and tenant origination costs upon acquiring buildings with in-place leases. The balances are shown net of amortization, which is recorded as an increase to or a reduction of rental income for lease intangibles and as amortization expense for tenant origination costs.

9. Notes Payable on Real Estate

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

	September 30, 2007	December 31, 2006
Current portion of notes payable on real estate	$ 146,301	$ 64,279
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 7)	138,147	150,477
Total notes payable on real estate, current portion	284,448	214,756
Notes payable on real estate, non-current portion	229,744	132,277
Total notes payable on real estate	$ 514,192	$ 347,033

At September 30, 2007, $15.3 million of the current portion and $0.9 million of the non-current portion of notes payable on real estate were recourse to us, beyond being recourse to the single-purpose entity that held the real estate asset and was the primary obligor on the note payable.

We have one participating mortgage loan obligation related to a real estate project. The mortgage lender participates in net operating cash flow of the mortgaged real estate project, if any, and net proceeds upon the sale of the project. The lender receives 6.0% fixed interest on the outstanding balance of its note, compounded monthly, and participates in 35.0% to 80.0% of net proceeds based on reaching various internal rates of return. The amount of the participating liability was $3.5 million and $6.1 million at September 30, 2007 and December 31, 2006, respectively.

10. Debt

We had short-term borrowings of $556.7 million and $126.2 million with related average interest rates of 6.1% and 5.8% as of September 30, 2007 and December 31, 2006, respectively.

Since 2001, we have maintained a credit agreement with Credit Suisse (CS) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On December 20, 2006, we entered into an amendment and restatement to our credit agreement (the Credit Agreement) to, among other things, allow the consummation of the Trammell Crow Company Acquisition and the incurrence of senior secured term loan facilities for an aggregate principal amount of up to $2.2 billion.

Our Credit Agreement includes the following: (1) a $600.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on June 24, 2011, (2) a $1.1 billion tranche A term loan facility, requiring quarterly principal payments beginning March 31, 2009 (previously set to commence on March 31, 2008, but adjusted as a result of our prepayment of all of the 2008 required payments in the current year) through September 30, 2011, with the balance payable on December 20, 2011, (3) a $1.1 billion tranche B term loan facility, requiring quarterly principal payments of $2.75 million beginning March 31, 2007 through September 30, 2013, with the balance payable on December 20, 2013, and (4) the ability to borrow an additional $300.0 million, subject to the satisfaction of customary conditions. The revolving credit facility allows for borrowings outside of the United States, with sub-facilities of $5.0 million available to one of our Canadian subsidiaries, $35.0 million available to one of our Australian and New Zealand subsidiaries and $50.0 million available to one of our U.K. subsidiaries. Additionally, outstanding borrowings under these sub-facilities may be up to 5.0% higher as allowed under the currency fluctuation provision in the Credit Agreement.

Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either the applicable fixed rate plus 1.2375% or the daily rate plus 0.2375% for the first year; thereafter, at the applicable fixed rate plus 0.575% to 1.1125% or the daily rate plus 0% to 0.1125%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of September 30, 2007, we had $43.3 million of revolving credit facility principal outstanding with a related weighted average interest rate of 8.1%, which is included in short-term borrowings in the accompanying consolidated balance sheets. As of December 31, 2006, we had no revolving credit facility principal outstanding. As of September 30, 2007, letters of credit totaling $11.6 million were outstanding under the revolving credit facility. These letters of credit primarily relate to our outstanding indebtedness as well as letters of credit issued in connection with development activities in our Development Services segment and reduce the amount we may borrow under the revolving credit facility.

Borrowings under the tranche A term facility bear interest, based at our option, on either the applicable fixed rate plus 1.50% or the daily rate plus 0.50% for the first year, thereafter, at the applicable fixed rate plus 0.75% to 1.375% or the daily rate plus 0% to 0.375%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). Borrowings under the tranche B term facility bear interest, based at our option, on either the applicable fixed rate plus 1.50% or the daily rate plus 0.50%. During the nine months ended September 30, 2007, we repaid $146.0 million and $137.3 million of our tranche A and tranche B loan facilities, respectively. As of September 30, 2007 and December 31, 2006, we had $827.0 million and $973.0 million of tranche A term loan facilities' principal outstanding, respectively, and $962.8 million and $1.1 billion of tranche B term loan facilities' principal outstanding, respectively, each with a related interest rate of 7.0% and 6.9%, respectively, as of September 30, 2007 and December 31, 2006 and included in the accompanying consolidated balance sheets.

On February 26, 2007, we entered into two interest rate swap agreements with a total notional amount of $1.4 billion and a maturity date of December 31, 2009. The purpose of these interest rate swap agreements is to hedge potential changes to our cash flows due to the variable interest nature of our senior secured term loan facilities. On March 20, 2007, these interest rate swaps were designated as cash flow hedges under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended. We incurred a loss on these interest rate swaps from the date we entered into the swaps up to the designation date of approximately $3.9 million, which is included in other loss in the accompanying consolidated statement of operations. The hedge ineffectiveness for the period from March 20, 2007 through September 30, 2007 was not significant. As of September 30, 2007, the fair value of these interest rate swap agreements was reflected as a $6.7 million liability and is included in other current liabilities in the accompanying consolidated balance sheets.

The Credit Agreement is jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. Borrowings under our Credit Agreement are secured by a pledge of substantially all of the capital stock of our U.S. subsidiaries and 65% of the capital stock of certain non-U.S.

subsidiaries. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment.

Our Credit Agreement contains numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of interest and a maximum leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc., a wholly-owned subsidiary of CB Richard Ellis Services, issued $200.0 million in aggregate principal amount of $9\frac{3}{4}$% senior notes, which were due May 15, 2010. CBRE Escrow, Inc. merged with and into CB Richard Ellis Services, and CB Richard Ellis Services assumed all obligations with respect to the $9\frac{3}{4}$% senior notes in connection with the Insignia Acquisition. The $9\frac{3}{4}$% senior notes were unsecured obligations of CB Richard Ellis Services, senior to all of its current and future unsecured indebtedness, but subordinated to all of CB Richard Ellis Services' current and future secured indebtedness. The $9\frac{3}{4}$% senior notes were jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrued at a rate of $9\frac{3}{4}$% per year and was payable semi-annually in arrears on May 15 and November 15. Before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the $9\frac{3}{4}$% senior notes at $109\frac{3}{4}$% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our initial public offering to redeem $70.0 million in aggregate principal amount, or 35.0%, of our $9\frac{3}{4}$% senior notes. Pursuant to the terms of the Trammell Crow Company Acquisition Agreement, on November 3, 2006, we caused CB Richard Ellis Services to launch a tender offer and consent solicitation for all of our outstanding $9\frac{3}{4}$% senior notes, which resulted in the repurchase of all but $3.3 million of these notes. The remaining $3.3 million of $9\frac{3}{4}$% senior notes were redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date, which we elected to redeem during the nine months ended September 30, 2007.

On March 2, 2007, we entered into a $50.0 million credit note with Wells Fargo Bank for the purpose of purchasing eligible investments, which include cash equivalents, agency securities, A1/P1 commercial paper and eligible money market funds. The proceeds of this note will not be made generally available to us, but will instead be deposited in an investment account maintained by Wells Fargo Bank and will be used and applied solely to purchase eligible investment securities. Borrowings under the revolving credit note will bear interest at 0.25% and the note will terminate on December 3, 2007, which can be extended by a written amendment. As of September 30, 2007, there were no amounts outstanding under this revolving credit note.

Our wholly-owned subsidiary, CBRE Melody, has credit agreements with Washington Mutual Bank, FA, or WaMu, and JP Morgan Chase Bank, N.A., or JP Morgan, for the purpose of funding mortgage loans that will be resold.

Effective July 1, 2006, CBRE Melody entered into a $200.0 million multifamily mortgage loan repurchase agreement, or Repo Agreement, with WaMu. The Repo Agreement continues indefinitely unless or until 30 days written notice is delivered, prior to the termination date, by either CBRE Melody or WaMu. Under the Repo Agreement, CBRE Melody will originate multifamily loans and sell such loans to one or more investors, including Fannie Mae, Freddie Mac, Ginnie Mae or any of several private institutional investors. WaMu has agreed to purchase certain qualifying mortgage loans after such loans have been originated, but prior to sale to one of the aforementioned investors, on a servicing retained basis, subject to CBRE Melody's obligation to repurchase the mortgage loan. Effective August 20, 2007, CBRE Melody entered into a first amendment to the Repo Agreement, with WaMu. This amendment provides for, among other things, a change in interest rate from one-month LIBOR, set daily plus 0.75% to one-month LIBOR, set daily plus 0.70%.

On November 15, 2005, CBRE Melody entered into a secured credit agreement with JP Morgan to establish a warehouse line of credit. This agreement provides for a $250.0 million senior secured revolving line of credit, bears interest at the daily Chase London LIBOR rate plus 0.75% and expired on November 14, 2006. On November 14, 2006, CBRE Melody executed an amendment to the credit agreement whereby the maturity date was extended to November 30, 2007. On September 13, 2007, CBRE Melody entered into an amendment to their secured credit agreement with JP Morgan. This amendment increases the senior secured revolving line of credit from $250.0 million to $350.0 million, with the additional $100.0 million bearing interest at the Chase London LIBOR rate plus 0.85%.

During the nine months ended September 30, 2007, we had a maximum of $450.9 million warehouse lines of credit principal outstanding. As of September 30, 2007 and December 31, 2006, we had $450.9 million and $104.0 million of warehouse lines of credit principal outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had $450.9 million and $104.0 million of mortgage loans held for sale (warehouse receivables), which represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased as of September 30, 2007 and December 31, 2006, respectively, and which are also included in the accompanying consolidated balance sheets.

On July 31, 2006, CBRE Melody entered into a $60.0 million revolving credit note with JP Morgan, for the purpose of purchasing qualified investment securities, which include but are not limited to U.S. Treasury and Agency securities. The proceeds of this note will not be made generally available to CBRE Melody, but will instead be deposited in an investment account maintained by JP Morgan and will be used and applied solely to purchase qualified investment securities. Borrowings under the revolving credit note will bear interest at 0.50%. Initially, all outstanding principal on this note and all accrued interest unpaid was to be due and payable on demand, or if no demand was made, then on or before July 31, 2007. On November 14, 2006, CBRE Melody executed an amendment extending the maturity on this note to November 30, 2007. Effective May 1, 2007, CBRE Melody executed an amendment, which increased the revolving credit note to $100.0 million and extended the maturity date to April 30, 2008. As of September 30, 2007 and December 31, 2006, there were no amounts outstanding under this revolving credit note.

On April 30, 2007, Trammell Crow Company Acquisitions II, L.P. (Acquisitions II), a legal entity within our Development Services segment that we consolidate, entered into a $100.0 million revolving credit agreement with WestLB AG, as administrative agent for a lender group. Borrowings under the credit agreement will be used to fund acquisitions of real estate prior to receipt of capital contributions of Acquisitions II investors and permanent project financing. This agreement bears interest at the daily British Bankers Association LIBOR rate plus 0.65% and expires on April 30, 2010. Subject to certain conditions, Acquisitions II can extend the maturity date of the credit facility for an additional term of not longer than twelve months and may increase the maximum commitment to an amount not exceeding $150.0 million. Borrowings under the line are non-recourse to us and are secured by the capital commitments of the investors in Acquisitions II. As of September 30, 2007, there was $49.1 million outstanding under this revolving credit note included in short-term borrowings in the accompanying consolidated balance sheets.

In connection with our acquisition of Westmark Realty Advisors in 1995 (now known as CB Richard Ellis Investors), we issued approximately $20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. The interest rate on the Westmark senior notes is currently equal to the interest rate in effect for amounts outstanding under our Credit Agreement plus 12 basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was $11.2 million as of September 30, 2007 and December 31, 2006.

In January 2006, we acquired an additional stake in our Japanese affiliate, CB Richard Ellis KK (IKOMA), which increased our total equity interest in IKOMA to 51%. As a result, we now consolidate IKOMA's financial statements, which included debt. IKOMA utilized short-term borrowings to assist in funding its working capital requirements. As of September 30, 2007, there was no amount of outstanding debt for IKOMA. As of December 31, 2006, IKOMA had $6.7 million of debt outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the United Kingdom. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount. The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of September 30, 2007 and December 31, 2006, $2.1 million and $2.2 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. As of September 30, 2007 and December 31, 2006, there were no amounts outstanding under this facility.

11. Commitments and Contingencies

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any liability imposed upon us that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

We had outstanding letters of credit totaling $10.4 million as of September 30, 2007, excluding letters of credit related to our subsidiaries' outstanding reserves for claims under certain insurance programs and indebtedness. These letters of credit are primarily executed by us in the normal course of business of our Development Services segment. The letters of credit expire at varying dates through November 2008.

We had guarantees totaling $6.9 million as of September 30, 2007, excluding guarantees related to consolidated indebtedness and operating leases. These guarantees primarily include a debt repayment guaranty of an unconsolidated subsidiary as well as various guarantees of management contracts in our operations overseas. The guarantee obligation related to the debt repayment guaranty of an unconsolidated subsidiary expires in December 2009. The other guarantees will expire at the end of each of the respective management agreements.

Additionally, in connection with the Trammell Crow Company Acquisition, we have assumed numerous completion and budget guarantees relating to development projects. These guarantees are made by us in the normal course of business. Each of these guarantees requires 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 have "guaranteed maximum price" contracts with reputable general contractors with respect to projects for which we provide these guarantees. These contracts are intended to pass the budget risk to such contractors. While there can be no assurance, we do not expect to incur any material losses under these guarantees.

As a result of development activities acquired in the Trammell Crow Company Acquisition, from time to time, we act as a general contractor with respect to construction projects. We do not consider these activities to be a material part of our business. In connection with these activities, we seek to subcontract construction work for certain projects to reputable subcontractors. Should construction defects arise relating to the underlying projects, we could potentially be liable to the client for the costs to repair such defects; we would generally look to the subcontractor that performed the work to remedy the defect and also look to insurance policies that cover this work. While there can be no assurance, we do not expect to incur material losses with respect to construction defects.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of September 30, 2007, we had committed $79.5 million to fund future co-investments.

12. Stock-Based Compensation

Stock Incentive Plans

2001 Stock Incentive Plan. Our 2001 stock incentive plan was adopted by our Board of Directors and approved by our stockholders on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004 in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares remain available for issuance under it. However, as of September 30, 2007, outstanding stock options granted under the 2001 stock incentive plan to acquire 5,990,350 shares of our Class A common stock remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards. Options granted under this plan have an exercise price of $1.92 and vest and are exercisable in 20% annual increments over five years from the date of grant. Options granted under the 2001 stock incentive plan are subject to a maximum term of ten years from the date of grant. The number of shares issued pursuant to the stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

Amended and Restated 2004 Stock Incentive Plan. Our 2004 stock incentive plan was adopted by our Board of Directors and approved by our stockholders on April 21, 2004, was amended and restated on April 14, 2005 and was amended again on September 6, 2006 and June 1, 2007. The 2004 stock incentive plan authorizes the grant of stock-based awards to our employees, directors or independent contractors. A total of 20,785,218 shares of our Class A common stock initially were reserved for issuance under the 2004 stock incentive plan. This share reserve is reduced by one share upon grant of an option or stock appreciation right, and is reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Awards that expire, terminate or lapse, will again be available for grant under this plan. Pursuant to the terms of our 2004 stock incentive plan, no employee is eligible to be granted options or stock appreciation rights covering more than 6,235,566 shares during any calendar year. This limitation is subject to a policy adopted by our board of directors, which states that no person is eligible to be granted options, stock appreciation rights or restricted stock purchase rights covering more than 2,078,523 shares during any calendar year or to be granted any other form of stock award covering more than 1,039,260 shares during any calendar year. The number of shares issued or reserved pursuant to the 2004 stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of mergers, consolidations, reorganizations, stock splits, stock dividends and other dilutive changes in our common stock. In addition, our board of directors may adjust outstanding awards to preserve the awards' benefits or potential benefits.

As of September 30, 2007, 6,963,215 shares were subject to options issued under our 2004 stock incentive plan and 4,952,992 shares remained available for future grants under the 2004 stock incentive plan. Options granted under this plan during the nine months ended September 30, 2007 have exercise prices in the range of $25.18 to $37.43, of which 1,183,096 shares vest and are exercisable in equal annual increments over four years from the date of grant and 14,079 shares vest and are exercisable in equal quarterly increments over three years from the date of grant.

A summary of the status of our option plans is presented in the tables below:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	13,729,892	$ 7.30
Exercised	(1,650,605)	5.51
Granted	1,197,175	27.40
Forfeited	(322,897)	7.78
Outstanding at September 30, 2007	12,953,565	$ 9.37
Vested and expected to vest at September 30, 2007 (1)	12,716,397	$ 9.37
Exercisable at September 30, 2007	7,438,027	$ 5.76

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumption to total outstanding options.

Options outstanding at September 30, 2007 and their related weighted average exercise price, intrinsic value and life information is presented below:

	Outstanding Options				Exercisable Options		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$1.92	5,990,350	5.3	$ 1.92		4,504,552	$ 1.92	
$6.33 - $7.46	2,349,843	2.2	7.44		1,603,593	7.43	
$11.10 - $15.43	2,514,053	4.9	15.21		1,098,121	15.27	
$23.46 - $25.67	907,894	5.9	23.51		230,268	23.51	
$27.19 - $37.43	1,191,425	6.9	27.41		1,493	35.87	
	12,953,565	4.8	$ 9.37	$ 240,547,540	7,438,027	$ 5.76	$ 164,395,919

At September 30, 2007, the aggregate intrinsic value and weighted average remaining contractual life for options vested and expected to vest were $237.3 million and 4.8 years, respectively.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation"* prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, *"Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123."*

In December 2004, the FASB issued SFAS No. 123 Revised, *"Share Based Payment,"* or SFAS No. 123R. SFAS No. 123R requires the measurement of compensation cost at the grant date, based upon the estimated fair value of the award, and requires amortization of the related expense over the employee's requisite service period. Effective January 1, 2006, we adopted SFAS No. 123R applying the modified-prospective method for remaining unvested options that were granted subsequent to our IPO and the prospective method for remaining unvested options that were granted prior to our IPO.

In accordance with SFAS No. 123R, we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility and the expected life of the options.

The total estimated grant date fair value of stock options that vested during the nine months ended September 30, 2007 was $10.0 million. The weighted average fair value of options granted by us was $12.35 and $10.38 for the three months ended September 30, 2007 and 2006, respectively, and $12.43 and $10.38 for the nine months ended September 30, 2007 and 2006, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	4.13%	4.80%	4.14%	4.80%
Expected volatility	44.52%	40.00%	44.41%	39.94%
Expected life	5 years	5 years	5 years	5 years

The dividend yield assumption is excluded from the calculation, as it is our present intention to retain all earnings. The expected volatility is based on a combination of our historical stock price and implied volatility. The selection of implied volatility data to estimate expected volatility is based upon the availability of actively traded options on our stock. The risk-free interest rate is based upon the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The expected life of our stock options represents the average between the vesting and contractual term, pursuant to Securities and Exchange Staff Accounting Bulletin No. 107.

Option valuation models require the input of subjective assumptions including the expected stock price volatility and expected life. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, we do not believe that the Black-Scholes model necessarily provides a reliable single measure of the fair value of our employee stock options.

Total compensation expense related to stock options was $2.9 million and $1.9 million for the three months ended September 30, 2007 and 2006, respectively, and $7.1 million and $5.4 million for the nine months ended September 30, 2007 and 2006, respectively. In addition, during the nine months ended September 30, 2007, we incurred $9.8 million of expense resulting from the acceleration of vesting of stock options in connection with the termination of duplicative employees as a result of the Trammell Crow Company Acquisition, which is included in merger-related charges in the accompanying consolidated statement of operations for the nine months ended September 30, 2007. At September 30, 2007, total unrecognized estimated compensation cost related to non-vested stock options was approximately $30.3 million, which is expected to be recognized over a weighted average period of approximately 3.0 years.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2007 and 2006 was $50.7 million and $55.8 million, respectively. We recorded cash received from stock option exercises of $9.1 million and $7.6 million and related tax benefits of $15.9 million and $17.4 million during the nine months ended September 30, 2007 and 2006, respectively. Upon option exercise, we issue new shares of stock. Excess tax benefits exist when the tax deduction resulting from the exercise of options exceeds the compensation cost recorded. Prior to the adoption of SFAS No. 123R, we presented all such excess tax benefits as operating cash flows on our consolidated statements of cash flows. SFAS No. 123R requires the cash flows resulting from such excess tax benefits to be classified as financing cash flows. Under SFAS No. 123R, we have classified excess tax benefits of $15.9 million and $17.4 million for the nine months ended September 30, 2007 and 2006, respectively, as financing cash inflows.

We have issued non-vested stock awards, including shares and stock units, in our Class A common stock to certain of our employees and members of our Board of Directors. During the nine months ended September 30, 2007, we granted non-vested stock awards of 819,679 shares, of which 57,902 shares were restricted stock awards which immediately vested at the date of grant, 752,038 shares vest in equal annual increments over four years from the date of grant and 9,739 shares vest in three years from the date of grant. During the nine months ended September 30, 2006, we granted non-vested stock awards of 598,725 shares, of which 590,933 shares vest in equal annual increments over four years from the date of grant and 7,792 shares vest in three years from the date of grant. In addition, we granted 297,779 and 441,753 of non-vested stock units to certain of our employees during the nine months ended September 30, 2007 and 2006, respectively. These non-vested stock units all vest in 2016. A summary of the status of our non-vested stock awards is presented in the table below:

	Shares/Units	Weighted Average Market Value Per Share
Balance at December 31, 2006	1,881,669	$ 23.97
Granted	1,117,458	29.60
Vested	(358,603)	21.43
Forfeited	(28,177)	21.39
Balance at September 30, 2007	2,612,347	$ 26.76

Total compensation expense related to non-vested stock awards was $3.3 million and $10.7 million, respectively, for the three and nine months ended September 30, 2007. Total compensation expense for the nine months ended September 30, 2007 includes $2.0 million of compensation expense related to 57,902 shares of restricted stock, which immediately vested at the date of grant. In addition, during the nine months ended September 30, 2007, we incurred $1.0 million of expense resulting from the acceleration of vesting of non-vested stock awards in connection with the termination of duplicative employees as a result of the Trammell Crow Company Acquisition, which is included in merger-related charges in the accompanying consolidated statement of operations. Total compensation expense related to non-vested stock awards was $0.8 million and $2.2 million, respectively, for the three and nine months ended September 30, 2006. At September 30, 2007, total unrecognized estimated compensation cost related to non-vested stock awards was approximately $63.8 million, which is expected to be recognized over a weighted average period of approximately 4.7 years.

13. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Where appropriate, the computation of diluted earnings per share further assumes the dilutive effect of potential common shares, which include stock options and certain contingently issuable shares. Contingently issuable shares represent non-vested stock awards. In accordance with SFAS No. 128, "*Earnings Per Share,*" these shares are included in the dilutive earnings per share calculation under the treasury stock method. The following is a calculation of earnings per share (dollars in thousands, except share data):

	Three Months Ended September 30,					
	2007			2006		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share:						
Net income applicable to common stockholders	$ 114,947	230,997,817	$ 0.50	$ 92,309	226,749,704	$ 0.41
Diluted earnings per share:						
Net income applicable to common stockholders	$ 114,947	230,997,817		$ 92,309	226,749,704	
Dilutive effect of contingently issuable shares		575,457			420,235	
Dilutive effect of stock options		5,877,590			6,773,833	
Net income applicable to common stockholders	$ 114,947	237,450,864	$ 0.48	$ 92,309	233,943,772	$ 0.39

	Nine Months Ended September 30,					
	2007			2006		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share:						
Net income applicable to common stockholders	$ 268,059	230,406,342	$ 1.16	$ 193,473	226,095,680	$ 0.86
Diluted earnings per share:						
Net income applicable to common stockholders	$ 268,059	230,406,342		$ 193,473	226,095,680	
Dilutive effect of contingently issuable shares		585,837			273,119	
Dilutive effect of stock options		6,298,937			7,151,010	
Net income applicable to common stockholders	$ 268,059	237,291,116	$ 1.13	$ 193,473	233,519,809	$ 0.83

For the three and nine months ended September 30, 2007, options to purchase 1,202,891 and 420,867 shares of common stock, respectively, were excluded from the computation of diluted earnings

per share because their inclusion would have had an anti-dilutive effect. There were 967,256 and 322,419 anti-dilutive shares for the three and nine months ended September 30, 2006, respectively.

14. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). In the accompanying consolidated balance sheets, accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, unrealized holding (losses) gains on available for sale securities, unrealized losses on interest rate swaps and pension adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

The following table provides a summary of comprehensive income (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 114,947	$ 92,309	$ 268,059	$ 193,473
Other comprehensive income (loss):				
Foreign currency translation gains (losses) and other	24,763	(1,771)	32,818	6,431
Pension adjustments, net of tax	16,713		17,227	
Unrealized losses on interest rate swaps, net	(10,969)		(2,683)	
Unrealized holding (losses) gains on available for sale securities, net	(333)		604	
Total other comprehensive income (loss)	30,174	(1,771)	47,966	6,431
Comprehensive income	$ 145,121	$ 90,538	$ 316,025	$ 199,904

15. Pensions

We have two contributory defined benefit pension plans in the U.K., which we acquired in connection with previous acquisitions. Our subsidiaries based in the U.K. maintain the plans to provide retirement benefits to existing and former employees participating in these plans.

Net periodic pension (benefit) cost consisted of the following (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost	$ 186	$ 1,762	$ 4,038	$ 5,133
Interest cost	4,525	3,574	12,734	10,475
Expected return on plan assets	(5,057)	(3,745)	(13,712)	(10,874)
Curtailment gain	(9,988)		(9,988)	
Amortization of prior service benefit	(4)	(122)	(441)	(355)
Amortization of unrecognized net (gain) loss	(2,627)	389	(1,685)	1,130
Net periodic pension (benefit) cost	$ (12,965)	$ 1,858	$ (9,054)	$ 5,509

We contributed $2.6 million and $7.2 million to fund our pension plans during the three and nine months ended September 30, 2007, respectively. We expect to contribute a total of $9.9 million to fund our pension plans for the year ending December 31, 2007. Additionally, we are in negotiations with the trustees of the pension plans to contribute additional funding (the amount of which is still to be determined) in the near term.

During the third quarter of 2007, we reached agreements with the active members of these plans to freeze future pension plan benefits. In return, the active members became eligible to enroll in the CBRE Group Personal Pension Plan, a defined contribution plan in the U.K.

In connection with this change, we recorded a curtailment gain of $10.0 million during the nine months ended September 30, 2007 and certain plan assets and liabilities were remeasured. The resulting underfunded status of our pension plans included in pension liability in the accompanying consolidated balance sheets was $22.1 million at September 30, 2007 as compared to $58.0 million at December 31, 2006. Unamortized actuarial loss included in accumulated other comprehensive income in the accompanying consolidated balance sheets was reduced to $15.1 million at September 30, 2007 from $49.1 million at December 31, 2006 and continues to be amortized over an actuarially determined period.

16. Merger-Related Charges

In connection with the Trammell Crow Company Acquisition, we recorded merger-related charges of $5.1 million and $39.8 million for the three and nine months ended September 30, 2007. These charges primarily relate to the termination of employees, who have become duplicative as a result of the Trammell Crow Company Acquisition. Our merger-related charges consisted of the following (dollars in thousands):

	2007 Charge	Utilized to Date	To be Utilized at September 30, 2007
Severance	$ 32,876	$ (31,586)	$ 1,290
Lease termination costs	2,291	(586)	1,705
Consulting costs	1,442	(1,442)	
Costs associated with exiting contracts	1,047	(1,047)	
Other	2,168	(2,168)	
Total merger-related charges	$ 39,824	$ (36,829)	$ 2,995

17. Sale of Savills plc

In January 2007, we sold Trammell Crow Company's approximately 19% ownership interest in Savills plc and generated a pre-tax loss of $34.9 million during the nine months ended September 30, 2007, which was largely driven by stock price depreciation at the date of sale as compared to December 31, 2006 when the investment was marked to market. The loss is included in other loss in the accompanying consolidated statements of operations. We received approximately $311.0 million of pre-tax proceeds from the sale, net of selling expenses.

18. Liabilities Related to the Insignia Acquisition

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we accrued certain liabilities in accordance with EITF Issue No. 95-3, *"Recognition of Liabilities in Connection with a Purchase Business Combination."* These remaining liabilities assumed in connection with the Insignia Acquisition consist of the following and are included in the accompanying consolidated balance sheets (dollars in thousands):

	Liability Balance at December 31, 2006	2007 Utilization	To be Utilized at September 30, 2007
Lease termination costs	$ 9,976	$ (2,627)	$ 7,349
Legal settlements anticipated	2,246	(88)	2,158
	$ 12,222	$ (2,715)	$ 9,507

The remaining liability associated with items previously charged to merger-related costs in connection with the Insignia Acquisition consisted of the following (dollars in thousands):

	Liability Balance at December 31, 2006	2007 Utilization	To be Utilized at September 30, 2007
Lease termination costs	$ 13,997	$ (2,085)	$ 11,912

19. Fiduciary Funds

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which are held by us on behalf of clients and which amounted to $1.2 billion and $1.0 billion at September 30, 2007 and December 31, 2006, respectively.

20. Fair Value of Financial Instruments

SFAS No. 107*, "Disclosures about Fair Value of Financial Instruments,"* requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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: Due to their short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of funded mortgage loans and generally reflects the values of the WaMu and JP Morgan warehouse lines of credit for our wholly-owned subsidiary, CBRE Melody (See Note 10).

Trading Securities: These investments are carried at fair value as of September 30, 2007 and December 31, 2006. The substantial majority of this balance at December 31, 2006 represented an investment in Savills plc acquired as part of the Trammell Crow Company Acquisition, which was sold during the nine months ended September 30, 2007.

Short-Term Borrowings: The majority of this balance represents the WaMu and JP Morgan warehouse lines of credit for CBRE Melody and our revolving credit facility. Due to the variable interest rates of these instruments, fair value approximates carrying value (See Note 10).

Senior Secured Term Loans & Other Short-Term and Long-Term Debt: Estimated fair values approximate respective carrying values because the substantial majority of these instruments are based on variable interest rates (See Note 10).

21. Industry Segments

We report our operations through five segments. The segments are as follows: (1) Americas, (2) 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, Mexico and other selected parts of

Latin America. The primary services offered consist of the following: real estate services, mortgage loan origination and servicing, valuation services, asset services and corporate services.

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

Our Global Investment Management business provides investment management services to clients seeking to generate returns and diversification through investments in real estate in the U.S., Europe and Asia.

Our Development Services business consists of real estate development and investment activities primarily in the U.S., which we acquired in the Trammell Crow Company Acquisition on December 20, 2006.

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenue				
Americas	$ 914,715	$ 625,375	$ 2,640,618	$ 1,715,881
EMEA	320,208	214,161	876,374	571,049
Asia Pacific	134,460	87,035	350,222	237,048
Global Investment Management	99,098	41,370	268,526	98,779
Development Services	24,328		61,393	
	$ 1,492,809	$ 967,941	$ 4,197,133	$ 2,622,757
Operating income (loss)				
Americas	$ 102,379	$ 87,926	$ 216,214	$ 215,442
EMEA	66,042	35,084	164,167	81,571
Asia Pacific	18,266	4,965	52,800	18,022
Global Investment Management	20,760	10,893	87,965	11,267
Development Services	7,807		(14,148)	
	215,254	138,868	506,998	326,302
Equity income (loss) from unconsolidated subsidiaries				
Americas	5,813	4,417	15,455	11,011
EMEA	364	874	996	1,528
Asia Pacific	(6)	56	(24)	470
Global Investment Management	2,773	3,788	14,529	12,967
Development Services	(2,924)		5,228	
	6,020	9,135	36,184	25,976
Minority interest expense (income)				
Americas	753	227	1,237	470
EMEA	871	504	1,761	766
Asia Pacific	929	(1,333)	5,917	(118)
Global Investment Management	980	25	1,193	114
Development Services	6,159		2,319	
	9,692	(577)	12,427	1,232
Other loss			37,534	
Interest income	7,937	1,002	20,922	7,568
Interest expense	40,417	7,468	124,572	34,755
Loss on extinguishment of debt				22,255
Income before provision for income taxes	$ 179,102	$ 142,114	$ 389,571	$ 301,604

22. Adoption of FIN 48

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes An interpretation of SFAS No. 109 (FIN 48).*" FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The cumulative effect of applying this interpretation has resulted in a decrease to retained earnings of approximately $29.1 million and a decrease to goodwill of approximately $5.4 million.

As of January 1, 2007, the total amount of gross unrecognized tax benefits was approximately $148.4 million. Of this amount, approximately $47.6 million (net of federal benefit received from state positions) represents the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

During the nine months ended September 30, 2007, we filed a request with the Internal Revenue Service to change our tax method of accounting on an uncertain tax position. As a result of this change, we determined that a FIN 48 liability was no longer needed on this position and reversed approximately $110.6 million. Of this amount, $17.0 million ($15.0 million net of federal benefit received from interest expense) represents related interest and penalties, the majority of which resulted in a decrease in our effective tax rate for the nine months ended September 30, 2007. We do not currently anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded during the next 12 months.

Our continuing practice is to recognize potential accrued interest and/or penalties related to income tax matters within income tax expense. As of January 1, 2007, we had approximately $31.8 million accrued for the payment of interest and penalties. During the three and nine months ended September 30, 2007, we accrued an additional $1.2 million and $4.0 million, respectively, in interest associated with uncertain tax positions.

We conduct business globally and, as a result, one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and multiple state, local and foreign jurisdictions. We are no longer subject to U.S. federal Internal Revenue Service audits for years prior to 2005, but the tax year 2004 is open by statute. With limited exception, our significant state and foreign tax jurisdictions are no longer subject to audit by the various tax authorities for tax years prior to 1998.

23. New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*," or SFAS No. 157, which enhances existing guidance for measuring assets and liabilities using fair value. SFAS No. 157 provides a single definition of fair value, a framework for measuring fair value and expanded disclosures concerning fair value. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This pronouncement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of SFAS No. 157 on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*

(SFAS No. 158)." SFAS No. 158 requires an employer to recognize the funded status of each pension and other postretirement benefit plan as an asset or liability on their balance sheet with all unrecognized amounts to be recorded in other comprehensive income. As required, we adopted this provision of SFAS No. 158 and initially applied it to the funded status of our defined benefit pension plans as of December 31, 2006. SFAS No. 158 also ultimately requires an employer to measure the funded status of a plan as of the date of the employer's fiscal year-end statement of financial position. As required, we will adopt the provisions of SFAS No. 158 relative to the measurement date in our fiscal year ending December 31, 2008. We are currently evaluating the impact, if any, that the full adoption of SFAS No. 158 will have on our consolidated financial position and results of operations.

In November 2006, the FASB issued EITF Issue No. 06-8, "*Applicability of the Assessment of a Buyers Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums,"* (EITF Issue No. 06-8). EITF Issue No. 06-8 establishes that a company should evaluate the adequacy of the buyer's continuing investment in determining whether to recognize profit under the percentage-of-completion method. EITF Issue No. 06-8 is effective for the first annual reporting period beginning after March 15, 2007. We do not expect the adoption of EITF Issue No. 06-8 to have a material effect on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,"* or SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This pronouncement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of SFAS No. 159, if any, on our consolidated financial position and results of operations.

24. Subsequent Event

On November 7, 2007, we announced a share repurchase program of up to $500.0 million of our outstanding common stock, which has been authorized by our board of directors.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q for CB Richard Ellis Group, Inc. for the three months ended September 30, 2007, represents an update to the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2006. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K as well as the unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are the world's largest commercial real estate services firm, based on 2006 revenue, with leading full-service operations in major metropolitan areas throughout the world. We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets. As of December 31, 2006, excluding affiliates and partner offices, we operated in more than 300 offices worldwide with approximately 24,000 employees providing commercial real estate services under the "CB Richard Ellis" brand name and development services under the "Trammell Crow" brand name. Our business is focused on several service competencies, including tenant representation, property/agency leasing, property sales, development services, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, commercial property and corporate facilities management, valuation, proprietary research and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees. In 2006, we became the first commercial real estate services company included in the S&P 500. In 2007, we were ranked #520 on the *Fortune* list of largest U.S. companies, #33 on the *Fortune* list of Fastest Growing U.S. Companies and #16 on the *Business Week* list of "Best in Class" companies.

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

Macroeconomic Conditions

Economic trends and government policies directly affect our operations as well as global and regional commercial real estate markets generally. These include: overall economic activity and employment growth, interest rate levels, the availability of credit to finance transactions and the impact of tax and regulatory policies. Periods of economic slowdown or recession, significantly rising interest rates, a declining employment level, a declining demand for real estate or the public perception that any of these events may occur, can negatively affect the performance of many of our business lines. Weak economic conditions could result in a general decrease in transaction activity and decline in rents, which, in turn, would reduce revenue from property management fees and brokerage commissions derived from property sales and leases. In addition, these conditions could lead to a decline in funds invested in commercial real estate and related assets. An economic downturn or a significant increase in interest rates also may reduce the amount of loan originations and related servicing by our commercial mortgage brokerage business. If our real estate and mortgage brokerage businesses are negatively impacted, it is likely that our other lines of business would also suffer due to the relationship among our various business lines.

Adverse changes in economic conditions would also affect our compensation expense, which is structured to decrease in line with any decrease in revenues. Compensation is our largest expense and the sales and leasing professionals in our largest line of business, advisory services, generally are paid on a commission and bonus basis that correlates with our revenue performance. As a result, the negative effect on our operating margins during difficult market conditions is partially mitigated. In addition, in circumstances when economic conditions are particularly severe, our management can look to improve operational performance by reducing senior management bonuses, curtailing capital expenditures and other cutting of discretionary operating expenses. Notwithstanding these approaches, adverse global and regional economic changes remain one of the most significant risks to our future financial condition and results of operations.

Beginning in 2003, economic conditions in the Americas, historically our largest segment in terms of revenue, improved from the economic downturn in 2001 and 2002, which positively impacted the commercial real estate market generally. This caused an improvement in our Americas segment's revenue, particularly in transaction revenue. In the third quarter of 2007, this recovery began to show indications of weakness, as credit markets became unpredictable and mixed views developed regarding the economy. These developments caused a generally slower pace of leasing activity in select markets within the United States despite positive market fundamentals. Although Americas investment sales performed strongly in the third quarter of 2007, we expect a moderate decrease in activity in the fourth quarter due to reduced availability of debt financing for larger asset sales and tighter underwriting standards. Longer term, the on-going health of the U.S. transaction business will depend upon the credit markets settling and the underlying strength of the U.S. economy.

Globally, the uncertainty experienced in the United States has not had an impact in the EMEA and Asia Pacific markets. The credit market instability experienced in the third quarter of 2007 in the United States did not have a significant impact on our investment sales in EMEA. In fact, investment sales deal flow increased across a wide range of markets compared to the same period in 2006. However, some third-quarter transactions were initiated prior to the U.S. credit market instability. The ensuing restrictions on financing and generally higher borrowing costs are anticipated to have an impact on future EMEA investment activity. In EMEA leasing, rental growth was evident in most markets. Across Asia Pacific, economic fundamentals remained strong in the third quarter of 2007. Investment sentiment remained positive with continued strong demand from capital sources within Asia as well as from other parts of the world. Rental growth also remained strong in the third quarter of 2007.

Effects of Acquisitions

Our management historically has made significant use of strategic acquisitions to add new service competencies, to increase our scale within existing competencies and to expand our presence in various geographic regions around the world. For example, we enhanced our mortgage brokerage services through our 1996 acquisition of L.J. Melody & Company (now known as CBRE Melody) and we significantly increased the scale of our investment management business through our 1995 acquisition of Westmark Realty Advisors (now known as CB Richard Ellis Investors), our 1997 acquisition of Koll Real Estate Services and our 1998 acquisition of the London-based firm Hillier Parker May & Rowden. Our 2003 acquisition of Insignia Financial Group, Inc. (Insignia) significantly increased the scale of our real estate advisory services and outsourcing services business lines in our Americas segment and also significantly increased our presence in the New York, London and Paris metropolitan areas.

In December 2006, we completed our largest acquisition to date in acquiring Trammell Crow Company. The acquisition of Trammell Crow Company deepened our offering of outsourcing services for corporate and institutional clients, especially project and facilities management, strengthened our ability to provide integrated management solutions across geographies, and established people, resources and expertise to offer real estate development services throughout the United States.

Strategic in-fill acquisitions have also been an integral component of our growth plans. During the nine months ended September 30, 2007, we completed 11 acquisitions with an aggregate purchase price of approximately $101.0 million. These included: the acquisition of the remaining 50.1% interest we did not already own in our U.S. affiliate, CBRE Technical Services, a building engineering services firm, within our Americas business segment, which by being brought in-house and combined with a similar business we acquired in the Trammell Crow Company Acquisition, will strongly benefit us; and the acquisition of a majority interest in CB Richard Ellis South Asia Pte Ltd, or CBRE India, an affiliate company within our Asia Pacific business segment, that is a premier full service commercial real estate provider operating in the rapidly growing Indian market. In 2006, in addition to our acquisition of Trammell Crow Company, we completed 23 in-fill acquisitions for an aggregate purchase price of approximately $155.0 million. These acquisitions exemplify our efforts to broaden our geographic coverage. Our acquirees were generally either quality regional firms or niche specialty firms that complement our existing platform within a region or affiliates in which we already held an equity interest.

Although our management believes that strategic acquisitions can significantly decrease the cost, time and commitment of management resources necessary to attain a meaningful competitive position within targeted markets or to expand our presence within our current markets, our management also believes that most acquisitions will initially have an adverse impact on our operating and net income, both as a result of transaction-related expenditures and the charges and costs of integrating the acquired business and its financial and accounting systems into our own. For example, through September 30, 2007, we incurred $200.9 million of transaction-related expenditures in connection with our acquisition of Insignia in 2003 (the Insignia Acquisition) and $185.0 million of transaction-related expenditures in connection with our acquisition of Trammell Crow Company in 2006. Transaction-related expenditures included severance costs, lease termination costs, transaction costs, deferred financing costs and merger-related costs, among others. We incurred our final transaction expenditures with respect to the Insignia Acquisition in the third quarter of 2004. In addition, through September 30, 2007, we have incurred $40.1 million of expenses in connection with the integration of Insignia's business lines, as well as accounting and other systems, into our own, $2.0 million of which was incurred during the nine months ended September 30, 2007. Additionally, during the nine months ended September 30, 2007, we incurred $32.3 million of integration expenses associated with other acquisitions completed in 2005 and 2006, including $29.8 million related to the acquisition of Trammell Crow Company. We expect to incur total integration expenses of approximately $40.0 million during 2007, which include residual Insignia-related integration costs, integration costs associated with our acquisition of Trammell Crow Company as well as similar costs related to our strategic in-fill acquisitions in 2005 and 2006.

International Operations

We have made significant acquisitions of non-U.S. companies and we may acquire additional foreign companies in the future. As we increase our foreign operations through either acquisitions or organic growth, fluctuations in the value of the U.S. dollar relative to the other currencies in which we may generate earnings could adversely affect our business, financial condition and operating results. Our management team generally seeks to mitigate our exposure by balancing assets and liabilities that are denominated in the same currency and by maintaining cash positions outside the United States only at levels necessary for operating purposes. In addition, from time to time we enter into foreign currency exchange contracts to mitigate our exposure to exchange rate changes related to particular transactions and to hedge risks associated with the translation of foreign currencies into U.S. dollars. Due to the constantly changing currency exposures to which we are subject and the volatility of currency exchange rates, our management cannot predict the effect of exchange rate fluctuations upon future operating results. In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations.

Our international operations also are subject to, among other things, political instability and changing regulatory environments, which may adversely affect our future financial condition and results of operations. Our management routinely monitors these risks and related costs and evaluates the appropriate amount of resources to allocate towards business activities in foreign countries where such risks and costs are particularly significant.

Leverage

On December 5, 2006, in connection with our acquisition of Trammell Crow Company, we successfully tendered substantially all of our remaining $9^{3}/_{4}$% senior notes due in 2010, with the remainder repaid in May of 2007. Although we paid down our high-interest debt in 2006, we borrowed approximately $2.1 billion under our new senior secured term loan facilities in December 2006 to finance our acquisition of Trammell Crow Company. As a result, we are highly leveraged and have significant debt service obligations.

Although our management believes that the incurrence of long-term indebtedness has been important in the development of our business, including facilitating our acquisitions of Insignia and Trammell Crow Company, the cash flow necessary to service this debt is not available for other general corporate purposes, which may limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry. Our management seeks to mitigate this exposure both through the refinancing of debt when available on attractive terms and through selective repayment and retirement of indebtedness. For example, in June 2006, we entered into a new $600.0 million revolving credit facility, which fully replaced our former credit agreement on more favorable terms. Additionally, we repaid $283.3 million of our senior secured term loans during the nine months ended September 30, 2007. Our management generally expects to continue to look for opportunities to reduce our debt in the future.

Notwithstanding the actions described above, however, our level of indebtedness and the operating and financial restrictions in our debt agreements both place constraints on the operation of our business.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include goodwill and other intangible assets, revenue recognition, income taxes and our consolidation policy can be found in our Annual Report on Form 10-K for the year ended December 31, 2006. Except for income taxes, there have been no material changes to these policies as of this Quarterly Report on Form 10-Q for the three months ended September 30, 2007. The methodology applied to management's estimate for income taxes has changed due to the implementation of a new accounting pronouncement as described below.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes An interpretation of Statement of Financial Accounting Standard No. 109*," or FIN 48. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The cumulative effect of applying this interpretation has resulted in a decrease to retained earnings of approximately $29.1 million and a decrease to goodwill of approximately $5.4 million. For additional information regarding the adoption of FIN 48, see Note 22 of the Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Basis of Presentation

Recent Significant Acquisitions

On December 20, 2006, pursuant to an Agreement and Plan of Merger dated October 30, 2006 (the Trammell Crow Company Acquisition Agreement), by and among us, A-2 Acquisition Corp., a Delaware corporation and our wholly-owned subsidiary (Merger Sub), and Trammell Crow Company, the Merger Sub was merged with and into Trammell Crow Company (the Trammell Crow Company Acquisition). Trammell Crow Company was the surviving corporation in the Trammell Crow Company Acquisition and upon the closing of the Trammell Crow Company Acquisition became our indirect wholly-owned subsidiary.

The consolidated statements of operations and cash flows for the three and nine months ended September 30, 2007 include a full period of activity for Trammell Crow Company. However, the consolidated statements of operations and cash flows for the three and nine months ended September 30, 2006 do not include any activity from Trammell Crow Company. As such, our consolidated financial statements after the Trammell Crow Company Acquisition are not directly comparable to our consolidated financial statements prior to the Trammell Crow Company Acquisition.

Segment Reporting

We report our operations through five segments. The segments are as follows: (1) Americas, (2) EMEA, (3) Asia Pacific, (4) Global Investment Management and (5) Development Services. The Americas consists of operations located in the United States, Canada, Mexico and Latin America. EMEA mainly consists of operations in Europe, while Asia Pacific includes operations in Asia, Australia and New Zealand. The Global Investment Management business consists of investment management operations in the United States, Europe and Asia. The Development Services business consists of real estate development and investment activities primarily in the United States, which were acquired in the Trammell Crow Company Acquisition.

Other

Pursuant to Emerging Issues Task Force, or EITF, Issue No. 01-14*, "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred,"* and EITF Issue No. 99-19, *"Reporting Revenue Gross as a Principal versus Net as an Agent,"* we concluded that the accounting for certain reimbursements (primarily salaries and related charges) related to our facilities and property management operations should be presented on a grossed up versus a net expense basis. Accordingly, we reclassified such reimbursements from cost of services to revenue for the three and nine months ended September 30, 2006 to be consistent with the presentation for the three and nine months ended September 30, 2007. As a result, amounts reflected as "Revenue" and "Cost of services" in the consolidated statements of operations for the three and nine months ended September 30, 2006 have been increased from the amounts previously reported by $64.1 million and $202.6 million, respectively. This reclassification had no impact on operating income, net income, earnings per share or stockholders' equity.

Results of Operations

The following table sets forth items derived from the consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 presented in dollars and as a percentage of revenue (dollars in thousands):

	Three Months Ended September 30, 2007		2006		Nine Months Ended September 30, 2007		2006	
Revenue	$ 1,492,809	100.0%	$ 967,941	100.0%	$ 4,197,133	100.0%	$ 2,622,757	100.0%
Costs and expenses:								
Cost of services	791,852	53.0	521,059	53.8	2,233,130	53.2	1,412,497	53.9
Operating, administrative and other	468,375	31.4	293,122	30.3	1,350,066	32.2	841,881	32.1
Depreciation and amortization	28,311	1.9	14,892	1.6	83,190	2.0	42,077	1.6
Merger-related charges	5,092	0.4			39,824	0.9		
Total costs and expenses	1,293,630	86.7	829,073	85.7	3,706,210	88.3	2,296,455	87.6
Gain on disposition of real estate	16,075	1.1			16,075	0.4		
Operating income	215,254	14.4	138,868	14.3	506,998	12.1	326,302	12.4
Equity income from unconsolidated subsidiaries	6,020	0.4	9,135	1.0	36,184	0.9	25,976	1.0
Minority interest expense (income)	9,692	0.6	(577)	(0.1)	12,427	0.3	1,232	0.1
Other loss					37,534	0.9		
Interest income	7,937	0.5	1,002	0.1	20,922	0.5	7,568	0.3
Interest expense	40,417	2.7	7,468	0.8	124,572	3.0	34,755	1.3
Loss on extinguishment of debt							22,255	0.8
Income before provision for income taxes	179,102	12.0	142,114	14.7	389,571	9.3	301,604	11.5
Provision for income taxes	64,155	4.3	49,805	5.2	121,512	2.9	108,131	4.1
Net income	$ 114,947	7.7%	$ 92,309	9.5%	$ 268,059	6.4%	$ 193,473	7.4%
EBITDA	$ 239,893	16.1%	$ 163,472	16.9%	$ 576,411	13.7%	$ 393,123	15.0%

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful in evaluating our performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, readers 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. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

EBITDA is calculated as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 114,947	$ 92,309	$ 268,059	$ 193,473
Add:				
Depreciation and amortization	28,311	14,892	83,190	42,077
Interest expense	40,417	7,468	124,572	34,755
Loss on extinguishment of debt				22,255
Provision for income taxes	64,155	49,805	121,512	108,131
Less:				
Interest income	7,937	1,002	20,922	7,568
EBITDA	$ 239,893	$ 163,472	$ 576,411	$ 393,123

Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006

We reported consolidated net income of $114.9 million for the three months ended September 30, 2007 on revenue of $1.5 billion as compared to consolidated net income of $92.3 million on revenue of $967.9 million for the three months ended September 30, 2006.

Our revenue on a consolidated basis increased by $524.9 million, or 54.2%, as compared to the three months ended September 30, 2006. This increase was due to acquisitions completed during 2006 and 2007, particularly the acquisition of Trammell Crow Company in December of 2006, as well as organic revenue growth. The organic revenue growth was fueled by continued higher worldwide transaction revenue as well as increased activity in our appraisal/valuation operations. Additionally, higher fees generated in our Global Investment Management business contributed to the increase. Foreign currency translation had a $33.7 million positive impact on total revenue during the three months ended September 30, 2007.

Our cost of services on a consolidated basis increased by $270.8 million, or 52.0%, during the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. Our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Also contributing to the increase was an increase in reimbursable expenses as well as additional headcount, both of which mainly resulted from acquisitions. Foreign currency translation had a $15.7 million negative impact on cost of services during the three months ended September 30, 2007. Cost of services as a percentage of revenue decreased slightly from 53.8% for the three months ended September 30, 2006 to 53.0% for the three months ended September 30, 2007, primarily attributable to our mix of revenue.

Our operating, administrative and other expenses on a consolidated basis were $468.4 million, an increase of $175.3 million, or 59.8%, for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses and carried interest incentive compensation expense, which resulted from our improved operating performance. Also contributing to the increase were higher costs as a result of acquisitions, particularly our acquisition of Trammell Crow Company, as well as increased marketing costs in support of our growing revenue. Foreign currency translation had a $9.8 million negative impact on total operating expenses during the three months ended September 30, 2007. Operating expenses as a percentage of revenue increased from 30.3% for the three months ended September 30, 2006 to 31.4% for the three months ended September 30, 2007. The increase in operating expenses as a percentage of revenue was primarily driven by higher carried interest expense recorded in the current year for which related revenue has not yet been recognized, higher integration costs in the current year, primarily driven by the Trammell Crow Company Acquisition, and bonus expense in our Development Services segment that primarily relates to gains on disposition of real estate, which are not included in revenue. Excluding the impact of these items, operating expenses as a percentage of revenue would actually be lower for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Our depreciation and amortization expense on a consolidated basis increased by $13.4 million, or 90.1%, for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. This increase was primarily driven by higher amortization expense related to intangible assets acquired in the Trammell Crow Company Acquisition, including net revenue backlog. As of September 30, 2007, the net book value of the intangible asset representing the remaining net revenue backlog acquired in the Trammell Crow Company Acquisition was $6.5 million, which will be fully amortized by the end of 2007. Also contributing to the increase over the prior year was higher depreciation expense mainly resulting from fixed assets acquired in recent acquisitions.

Our merger-related charges on a consolidated basis were $5.1 million for the three months ended September 30, 2007. These charges primarily consisted of severance, lease termination and consulting costs, all of which were attributable to the Trammell Crow Company Acquisition.

Our gain on disposition of real estate on a consolidated basis was $16.1 million for the three months ended September 30, 2007. This gain resulted from activity within our Development Services segment, which we acquired as part of the Trammell Crow Company Acquisition in December 2006.

Our equity income from unconsolidated subsidiaries on a consolidated basis decreased by $3.1 million, or 34.1%, for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. This was primarily due to a purchase accounting adjustment within our Development Services segment, which reduced equity income previously recognized in the second quarter of 2007.

Our consolidated minority interest expense increased by $10.3 million for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. The increase was primarily due to minority interest expense incurred within our Development Services segment as well as higher minority interest expense associated with our Japanese affiliate, CB Richard Ellis KK, or IKOMA, which we began fully consolidating in our results in 2006 as a result of our equity interest reaching 51%.

Our consolidated interest income was $7.9 million, an increase of $6.9 million, or 692.1%, for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. This increase was mainly driven by interest income earned in our Americas segment primarily resulting from higher average cash balances in 2007 as a result of cash received on the sale of Trammell Crow Company's interest in Savills plc as well as interest income earned on restricted cash held related to former shareholders of Trammell Crow Company common stock (see Note 4 of the Notes to Consolidated Financial Statements). Also contributing to the positive variance was higher interest income earned in our EMEA segment as a result of higher average cash balances in 2007 as well as interest income reported in our Development Services segment.

Our consolidated interest expense increased $32.9 million, or 441.2%, as compared to the three months ended September 30, 2006. The overall increase was primarily due to the additional debt resulting from the Trammell Crow Company Acquisition. In December 2006, we entered into an amended and restated credit agreement covering two new senior secured term loan facilities for an aggregate principal amount of up to $2.2 billion (of which we drew down $2.1 billion) to finance our acquisition of Trammell Crow Company. Despite the significant increase in our leverage as a result of the Trammell Crow Company Acquisition, our management generally expects to look for opportunities to reduce our debt in the future. For example, we repaid $152.8 million of our senior secured term loans during the three months ended September 30, 2007.

Our provision for income taxes on a consolidated basis was $64.2 million for the three months ended September 30, 2007 as compared to $49.8 million for the three months ended September 30, 2006. The increase in the provision for income taxes was mainly attributable to the increase in pre-tax income as compared to 2006. Our effective tax rate increased slightly from 35.0% for the three months ended September 30, 2006 to 35.8% for the three months ended September 30, 2007. The increase in the effective tax rate is primarily a result of the change in our mix of domestic and foreign earnings.

Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006

We reported consolidated net income of $268.1 million for the nine months ended September 30, 2007 on revenue of $4.2 billion as compared to consolidated net income of $193.5 million on revenue of $2.6 billion for the nine months ended September 30, 2006.

Our revenue on a consolidated basis increased by $1.6 billion, or 60.0%, as compared to the nine months ended September 30, 2006. This improvement was due to organic growth and acquisitions completed during 2006 and 2007, particularly the acquisition of Trammell Crow Company in December of 2006. The organic revenue growth was fueled by continued higher worldwide transaction revenue as well as increased activity in our appraisal/valuation, mortgage brokerage and outsourcing operations. Additionally, carried interest revenue earned and higher fees generated in our Global Investment Management business contributed to the increase. Foreign currency translation had a $90.5 million positive impact on total revenue during the nine months ended September 30, 2007.

Our cost of services on a consolidated basis increased by $820.6 million, or 58.1%, during the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. As previously mentioned, our sales and leasing professionals generally are paid on a commission and bonus basis, which substantially correlates with our revenue performance. Accordingly, the overall increase was primarily driven by the increase in revenue. Also contributing to the increase was an increase in reimbursable expenses as well as additional headcount, both of which mainly resulted from acquisitions. Foreign currency translation had a $43.7 million negative impact on cost of services during the nine months ended September 30, 2007. Cost of services as a percentage of revenue decreased slightly from 53.9% for the nine months ended September 30, 2006 to 53.2% for the nine months ended September 30, 2007, primarily attributable to our mix of revenue.

Our operating, administrative and other expenses on a consolidated basis were $1.4 billion, an increase of $508.2 million, or 60.4%, for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. The increase was primarily driven by higher worldwide payroll-related costs, including bonuses and carried interest incentive compensation expense, which resulted from our improved operating performance. Also contributing to the increase were higher costs as a result of acquisitions, particularly our acquisition of Trammell Crow Company, as well as increased marketing costs in support of our growing revenue. Foreign currency translation had a $28.0 million negative impact on total operating expenses during the nine months ended September 30, 2007. Operating expenses as a percentage of revenue were essentially flat at 32.1% for the nine months ended September 30, 2006 versus 32.2% for the nine months ended September 30, 2007. Operating expenses as a percentage of revenue in the current year were negatively impacted by higher carried interest expense recorded in the current year for which related revenue has not yet been recognized, higher integration costs in the current year, primarily driven by the Trammell Crow Company Acquisition, and bonus expense in our Development Services segment that primarily relates to gains on disposition of real estate, which are not included in revenue. Excluding the impact of these items, operating expenses as a percentage of revenue would actually be lower for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

Our depreciation and amortization expense on a consolidated basis increased by $41.1 million, or 97.7%, for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. This increase was primarily driven by higher amortization expense related to intangible assets acquired in the Trammell Crow Company Acquisition, including net revenue backlog. Also contributing to the increase over the prior year was higher depreciation expense mainly resulting from fixed assets acquired in recent acquisitions.

Our merger-related charges on a consolidated basis were $39.8 million for the nine months ended September 30, 2007. These charges primarily consisted of severance costs, which were attributable to the Trammell Crow Company Acquisition.

Our gain on disposition of real estate on a consolidated basis was $16.1 million for the nine months ended September 30, 2007. These gains resulted from activity within our Development Services segment.

Our equity income from unconsolidated subsidiaries on a consolidated basis increased by $10.2 million, or 39.3%, for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. This was primarily due to equity income generated by our Development Services segment. Also contributing to the positive variance were increased equity income from affiliated companies in our Americas segment, which have benefited from improved performance as well as higher dispositions within selected funds in our Global Investment Management segment in 2007.

Our consolidated minority interest expense increased by $11.2 million for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. The increase was primarily due to minority interest associated with our Japanese affiliate, IKOMA, as well as minority interest expense incurred within our Development Services segment.

Our other loss on a consolidated basis was $37.5 million for the nine months ended September 30, 2007, which primarily related to the sale of Trammell Crow Company's approximately 19% ownership interest in Savills plc, a real estate provider in the United Kingdom. This sale resulted in a pre-tax loss of $34.9 million, which was largely driven by stock price depreciation at the date of sale as compared to December 31, 2006 when the investment was marked to market.

Our consolidated interest income was $20.9 million, an increase of $13.4 million, or 176.5%, as compared to the nine months ended September 30, 2006. This increase was mainly driven by interest income earned in our Americas segment primarily resulting from higher average cash balances in 2007 as a result of cash received on the sale of Trammell Crow Company's interest in Savills plc as well as interest income earned on restricted cash held related to former shareholders of Trammell Crow Company common stock (see Note 4 of the Notes to Consolidated Financial Statements). Also contributing to the positive variance was interest income earned in our Development Services segment as well as higher interest income in our EMEA segment, resulting from higher average cash balances in 2007.

Our consolidated interest expense increased $89.8 million, or 258.4%, as compared to the nine months ended September 30, 2006. The overall increase was primarily due to the additional debt resulting from the Trammell Crow Company Acquisition. Despite the significant increase in our leverage as a result of the Trammell Crow Company Acquisition, our management generally expects to look for opportunities to reduce our debt in the future. For example, we repaid $283.3 million of our senior secured term loans during the nine months ended September 30, 2007. We expect to achieve annual cash interest savings of approximately $20 million as a result of our de-leveraging efforts to date in 2007, approximately half of which we expect to be realized in the current year.

Our loss on extinguishment of debt on a consolidated basis was $22.3 million for the nine months ended September 30, 2006. This loss was primarily related to the write-off of unamortized deferred financing fees and unamortized discount, as well as premiums paid, all in connection with the repurchase of our $11^{1}/_{4}$% senior subordinated notes during the nine months ended September 30, 2006. In addition, during the nine months ended September 30, 2006, we wrote off $8.2 million of unamortized deferred financing fees associated with our prior credit facility, which was replaced during 2006.

Our provision for income taxes on a consolidated basis was $121.5 million for the nine months ended September 30, 2007 as compared to $108.1 million for the nine months ended September 30, 2006. The increase in provision for income taxes was mainly attributable to the increase in pre-tax income as compared to 2006, partially offset by the reversal of an uncertain tax position in the current year, which we determined was no longer required. Our effective tax rate decreased from 35.9% for the nine months ended September 30, 2006 to 31.2% for the nine months ended September 30, 2007. The decrease in our effective tax rate is primarily a result of the change in our mix of domestic and foreign earnings as well as the previously mentioned reversal of an uncertain tax position in the current year.

Segment Operations

The following table summarizes our revenue, costs and expenses and operating income by our Americas, EMEA, Asia Pacific, Global Investment Management and Development Services operating segments for the three and nine months ended September 30, 2007 and 2006 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Americas								
Revenue	$ 914,715	100.0%	$ 625,375	100.0%	$ 2,640,618	100.0 %	$ 1,715,881	100.0%
Costs and expenses:								
Cost of services	566,781	62.0	358,659	57.4	1,616,568	61.2	976,958	56.9
Operating, administrative and other	222,499	24.3	169,647	27.1	711,834	27.0	498,457	29.0
Depreciation and amortization	18,777	2.0	9,143	1.4	56,991	2.2	25,024	1.5
Merger-related charges	4,279	0.5			39,011	1.4		
Operating income	$ 102,379	11.2%	$ 87,926	14.1%	$ 216,214	8.2 %	$ 215,442	12.6%
EBITDA	$ 126,216	13.8%	$ 101,259	16.2%	$ 249,889	9.5 %	$ 251,007	14.6%
EMEA								
Revenue	$ 320,208	100.0%	$ 214,161	100.0%	$ 876,374	100.0 %	$ 571,049	100.0%
Costs and expenses:								
Cost of services	153,394	47.9	114,619	53.5	440,596	50.3	304,891	53.4
Operating, administrative and other	96,830	30.2	61,211	28.6	261,591	29.8	173,023	30.3
Depreciation and amortization	3,129	1.0	3,247	1.5	9,207	1.1	11,564	2.0
Merger-related charges	813	0.3			813	0.1		
Operating income	$ 66,042	20.6%	$ 35,084	16.4%	$ 164,167	18.7 %	$ 81,571	14.3%
EBITDA	$ 68,664	21.4%	$ 38,701	18.1%	$ 172,609	19.7 %	$ 93,897	16.4%
Asia Pacific								
Revenue	$ 134,460	100.0%	$ 87,035	100.0%	$ 350,222	100.0%	$ 237,048	100.0%
Costs and expenses:								
Cost of services	71,677	53.3	47,781	54.9	175,966	50.2	130,648	55.1
Operating, administrative and other	42,776	31.8	32,299	37.1	116,687	33.3	84,402	35.6
Depreciation and amortization	1,741	1.3	1,990	2.3	4,769	1.4	3,976	1.7
Operating income	$ 18,266	13.6%	$ 4,965	5.7%	$ 52,800	15.1 %	$ 18,022	7.6%
EBITDA	$ 19,072	14.2%	$ 8,344	9.6%	$ 51,628	14.7 %	$ 22,586	9.5%
Global Investment Management								
Revenue	$ 99,098	100.0%	$ 41,370	100.0%	$ 268,526	100.0 %	$ 98,779	100.0%
Costs and expenses:								
Operating, administrative and other	77,672	78.4	29,965	72.4	178,623	66.5	85,999	87.1
Depreciation and amortization	666	0.7	512	1.3	1,938	0.7	1,513	1.5

	Three Months Ended September 30,				Nine Months Ended September 30,			
Operating income	$ 20,760	20.9%	$ 10,893	26.3%	$ 87,965	32.8 %	$ 11,267	11.4%
EBITDA	$ 23,219	23.4%	$ 15,168	36.7%	$ 103,239	38.4 %	$ 25,633	25.9%
Development Services								
Revenue	$ 24,328	100.0%	$	%	$ 61,393	100.0 %	$	%
Costs and expenses:								
Operating, administrative and other	28,598	117.6			81,331	132.5		
Depreciation and amortization	3,998	16.4			10,285	16.7		
Gain on disposition of real estate	16,075	66.1			16,075	26.2		
Operating income (loss)	$ 7,807	32.1%	$	%	$ (14,148)	(23.0)%	$	%
EBITDA	$ 2,722	11.2%	$	%	$ (954)	(1.6)%	$	%

EBITDA represents earnings before net interest expense, loss on extinguishment of debt, income taxes, depreciation and amortization. Our management believes EBITDA is useful in evaluating our performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our various business lines and for other discretionary purposes, including as a significant component when measuring our performance under our employee incentive programs.

However, EBITDA is not a recognized measurement under GAAP, and when analyzing our operating performance, readers 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. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

Net interest expense and loss on extinguishment of debt have been expensed in the segment incurred. Provision (benefit) 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,	
	2007	2006	2007	2006
Americas				
Net income	$ 41,783	$ 54,840	$ 66,404	$ 112,498
Add:				
Depreciation and amortization	18,777	9,143	56,991	25,024
Interest expense	32,474	5,407	108,735	28,873
Loss on extinguishment of debt				22,255
Provision for income taxes	37,124	32,462	29,729	68,553
Less:				
Interest income	3,942	593	11,970	6,196
EBITDA	$ 126,216	$ 101,259	$ 249,889	$ 251,007
EMEA				
Net income	$ 52,347	$ 26,043	$ 129,849	$ 57,555
Add:				
Depreciation and amortization	3,129	3,247	9,207	11,564
Interest expense	214	762	713	1,621
Provision for income taxes	14,884	8,839	41,293	24,053
Less:				
Interest income	1,910	190	8,453	896
EBITDA	$ 68,664	$ 38,701	$ 172,609	$ 93,897

Asia Pacific &nbs 105.3%

The estimated maturities of the fixed income securities included above are as follows:

Due in one year or less	$ 2,532
Due in one to five years	14,882
Due in five to ten years	3,888
Thereafter	308
	$ 21,610

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PRENEED TRUST INVESTMENTS (continued)

The cost and market values associated with cemetery preneed trust assets at December 31, 2005 are detailed below (in thousands).

	Cost	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 6,291	$	$	$ 6,291
Fixed income securities:				
U.S. Agency obligations	5,502	2	(81)	5,423
State obligations	11,507	177	(223)	11,461
Corporate	3,745	48	(36)	3,757
Other	7			7
Common Stock	12,830	1,413	(230)	14,013
Mutual funds:				
Equity	5,195	306	(52)	5,449
Fixed income	6,676	49	(43)	6,682
Other investments	1,349	90	(4)	1,435
Trust investments	$ 53,102	$ 2,085	$ (669)	$ 54,518
Accrued investment income	$ 250			$ 250
Trust assets				$ 54,768
Market value as a percentage of cost				103.1%

Preneed Funeral Trust Investments

Funeral preneed trust investments represent trust fund assets that the Company expects to withdraw when the services and merchandise are provided.

The cost and market values associated with funeral preneed trust assets at December 31, 2006 are detailed below (in thousands). The Company believes the unrealized losses related to trust investments are temporary in nature.

	Cost	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 15,865	$	$	$ 15,865
Fixed income securities:				
U.S. Treasury	7,811	25	(7)	7,829
State obligations	1,678	53		1,731
Corporate	2,186	31	(16)	2,201
Obligations and guarantees of U.S. government agencies	1,075	3	(16)	1,062
Common Stock	2,301	590		2,891

Mutual funds:				
Equity	8,598	1,169	(25)	9,742
Fixed income	3,278	263	(11)	3,530
Trust investments	$ 42,792	$ 2,134	$ (75)	$ 44,851
Market value as a percentage of cost				104.8%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PRENEED TRUST INVESTMENTS (continued)

The estimated maturities of the fixed income securities included above are as follows:

Due in one year or less	$ 1,824
Due in one to five years	9,233
Due in five to ten years	1,636
Thereafter	130
	$ 12,823

The cost and market values associated with funeral preneed trust assets at December 31, 2005 are detailed below (in thousands).

	Cost	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 19,216	$	$	$ 19,216
Fixed income securities:				
U.S. Treasury	434		(12)	422
State obligations	1,819	63	(1)	1,881
Corporate	1,289	16	(14)	1,291
Obligations and guarantees of U.S. government agencies	1,067	2	(25)	1,044
Common Stock	2,592	364	(48)	2,908
Mutual funds:				
Equity	5,412	758		6,171
Fixed income	15,032	58	(344)	14,745
Trust investments	$ 46,861	$ 1,261	$ (444)	$ 47,678
Market value as a percentage of cost				101.7%

Upon cancellation of a preneed funeral or cemetery contract, a customer is generally entitled to receive a refund of the corpus and some or all of the earnings held in trust. In certain jurisdictions, the Company is obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under-funded, the Company assesses whether it is responsible for replenishing the corpus of the trust, in which case a loss provision would be recorded. No loss amounts have been required to be recognized for the periods presented in the Consolidated Financial Statements.

Trust Investment Security Transactions

Cemetery and funeral trust investment security transactions recorded in Other income in the Consolidated Statements of Operations for the years ended December 31, 2005 and 2006 are as follows (in thousands):

	December 31, 2005	**December 31, 2006**
Investment income	$ 4,165	$ 2,913

Realized gains	3,938	3,433
Realized losses	(305)	(1,273)
Expenses	(1,185)	(1,126)
Increase in non-controlling interests in trust investments	(6,614)	(3,947)
	$	$

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. RECEIVABLES FROM PRENEED FUNERAL TRUSTS

The receivables from funeral trusts at December 31, 2005 and 2006 represent assets in trusts which are controlled and operated by third parties in which the Company does not have a controlling financial interest (less than 50%) in the trust assets. The Company accounts for these investments at cost.

The components of the receivables from funeral trusts in the consolidated balance sheet at December 31, 2005 and 2006 are as follows (in thousands):

	December 31, 2005	December 31, 2006
Amount due from preneed funeral trust funds	$ 18,071	$ 17,427
Less: allowance for cancellation	(1,842)	(1,778)
	$ 16,229	$ 15,649

The following summary reflects the composition of the assets held in trust and controlled by third parties to satisfy Carriage s future obligations under preneed funeral arrangements related to the preceding contracts at December 31, 2006 and 2005. The cost basis includes reinvested interest and dividends that have been earned on the trust assets. Fair value includes unrealized gains and losses on trust assets.

	Historical Cost Basis	Fair Value
	(in thousands)	
As of December 31, 2006:		
Cash and cash equivalents	$ 2,658	$ 2,658
Fixed income investments	11,607	11,079
Mutual funds and common stocks	109	108
Annuities	3,053	3,296
Total	$ 17,427	$ 17,141

	Historical Cost Basis	Fair Value
	(in thousands)	
As of December 31, 2005:		
Cash and cash equivalents	$ 3,183	$ 3,183
Fixed income investments	11,897	11,335
Mutual funds and common stocks	210	210
Annuities	2,781	3,034
Total	$ 18,071	$ 17,762

9. CONTRACTS SECURED BY INSURANCE

Certain preneed funeral contracts are secured by life insurance policies. Generally, the proceeds of the life insurance policies have been assigned to the Company and will be paid upon the death of the insured. The proceeds will be used to satisfy the beneficiary s obligations under the preneed contract for services and merchandise. The preneed funeral contracts secured by insurance totaled $166.9 and $161.1 million at December 31, 2005 and 2006, respectively and are not recorded on the Company s balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. CEMETERY PERPETUAL CARE TRUST INVESTMENTS

The Company is required by state law to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trust funds. As a result of the implementation of FIN 46R, the Company has consolidated the perpetual care trust funds with a corresponding amount as Non-controlling interests in perpetual care trusts. Realized and distributable earnings from these perpetual care trust investments are recognized in current cemetery revenues and are used to defray cemetery maintenance costs which are expensed as incurred.

The cost and market values associated with the trust investments held in perpetual care trust funds at December 31, 2006 are detailed below (in thousands). The Company believes the unrealized losses related to the trust investments are temporary in nature.

	Cost	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 1,542	$	$	$ 1,542
Fixed income securities:				
U.S. Treasury	499	4	(3)	500
U.S. Agency obligation	6,444	3	(61)	6,386
State obligations	609	15		624
Corporate	1,049	22	(2)	1,069
Other	363		(10)	353
Common Stock	9,104	1,678	(63)	10,719
Mutual funds:				
Equity	5,660	858	(132)	6,386
Fixed income	4,737	110	(6)	4,841
Other assets				
Trust investments	$ 30,007	$ 2,690	$ (277)	$ 32,420
Accrued investment income	$ 120			$ 120
Trust assets				$ 32,540
Market value as a percentage of cost				108.4%

The estimated maturities of the fixed income securities included above are as follows:

Due in one year or less	$ 1,294
Due in one to five years	5,691
Due in five to ten years	1,479
Thereafter	468
	$ 8,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. CEMETERY PERPETUAL CARE TRUST INVESTMENTS (continued)

The cost and market values associated with the trust investments held in perpetual care trust funds at December 31, 2005 are detailed below (in thousands). The Company believes the unrealized losses related to the trust investments are temporary in nature. Net unrealized and realized gains totaled $1.2 million for the year ended December 31, 2005.

	Cost	Unrealized Gains	Unrealized Losses	Market
Cash, money market and other short-term investments	$ 2,767	$	$	$ 2,767
Fixed income securities:				
U.S. Treasury	596	7	(8)	595
U.S. Agency obligation	6,610	8	(85)	6,533
State obligations	58			58
Corporate	2,589	63	(23)	2,629
Other	1,509	3	(13)	1,499
Common Stock	9,970	1,222	(195)	10,997
Mutual funds:				
Equity	2,926	140	(32)	3,034
Fixed income	3,146	99	(21)	3,242
Other assets	886	63	(98)	851
Trust investments	$ 31,075	$ 1,605	$ (475)	$ 32,205
Accrued investment income	$ 151			151
Trust assets				$ 32,356
Market value as a percentage of cost				104.1%

Non-controlling interests in cemetery perpetual care trusts represent the corpus of those trusts plus undistributed income. The components of non-controlling interests in cemetery perpetual care trusts as of December 31, 2005 and 2006 are as follows:

	December 31, 2005	December 31, 2006
Trust assets, at market value	$ 32,356	$ 32,540
Pending withdrawals of income	(719)	(1,080)
Debt due to a perpetual care trust	1,092	
Pending deposits	383	(271)
Non-controlling interests	$ 33,112	$ 31,189

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. CEMETERY PERPETUAL CARE TRUST INVESTMENTS (continued)

Trust Investment Security Transactions

Perpetual care trust investment security transactions recorded in Other income in the Consolidated Statements of Operations for the year ended December 31, 2005 and 2006 are as follows (in thousands):

	December 31, 2005	December 31, 2006
Investment income	$ 2,480	$ 1,217
Realized gains	1,688	2,033
Realized losses	(140)	(501)
Expenses	(591)	(507)
Increase in non-controlling interests in perpetual care trust investments	(3,437)	(2,242)
	$	$

11. DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS

Deferred charges and other non-current assets at December 31, 2005 and 2006 were as follows:

	2005	2006
	(in thousands)	
Agreements not to complete, net of accumulated amortization of $3,944 and $4,092, respectively	$ 831	$ 511
Deferred loan costs, net of accumulated amortization of $3,009 and $1,083, respectively	4,592	4,012
Deferred tax asset	15,894	16,540
Federal agency bond (cost approximates market)		5,000
Other	4,291	4,396
	$ 25,608	$ 30,459

The cost of agreements not to compete with former owners of businesses acquired is amortized over the term of the respective agreements, ranging from four to ten years. Deferred loan costs are being amortized over the term of the related debt.

12. LONG-TERM DEBT

Long-Term Debt

The Company s long-term debt consisted of the following at December 31:

	2005	2006
	(in thousands)	
Credit Facility, secured floating rate $35 million line at December 31, 2005 and 2006. Interest is due on a quarterly basis and on the maturity date at prime or LIBOR options, matures in April, 2010	$	$
7.875% Senior Notes due 2015	130,000	130,000
Acquisition debt	4,305	2,669
Other	2,293	2,731
Less: current portion	(2,026)	(1,559)

	$ 134,572	$ 133,841

In January 2005, the Company issued $130 million of 7.875% Senior Notes at par, due in 2015. The proceeds from these notes were used to refinance the Series 1999 Senior Notes, bring current the cumulative deferred distributions on the convertible junior subordinated debenture and the TIDES, and for general corporate purposes. In March 2005, the Company paid the cumulative deferred distributions on the TIDES totaling $10.9 million. During April 2005, the Company entered into a $35 million senior secured revolving credit facility that matures in five years to replace the existing unsecured credit facility. Borrowings under the new

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. LONG-TERM DEBT (continued)

credit facility bear interest at prime or LIBOR options with the current LIBOR option set at LIBOR plus 300 basis points. The credit facility is collateralized by all personal property and funeral home real property in certain states. The facility is currently undrawn.

In accordance with the terms of the Company s credit facility, a portion of the cash proceeds from the sale of funeral home and cemetery businesses are pledged to the benefit of the lenders and are restricted for use only for acquisitions of similar businesses, capital expenditures, or paydowns of debt. During 2006, approximately $5.5 million of such proceeds were so pledged, with $2.6 million subsequently released from the pledge and $2.9 million remaining pledged as of December 31, 2006.

Carriage, the parent entity, has no independent assets or operations. All assets and operations are held and conducted by subsidiaries, each of which (except for Carriage Services Capital Trust which is a single purpose entity that holds our debentures issued in connection with our TIDES) have fully and unconditionally guaranteed our obligations under the 7.875% Senior Notes. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any subsidiary guarantor under the new Senior Notes.

In connection with the 2005 senior note refinancing, the Company made a required make whole payment of $6.0 million (recorded as additional interest) and recorded a charge to write off $0.7 million of unamortized loan costs (in aggregate $4.2 million after tax, or $0.23 per diluted share) during the first quarter of 2005. In connection with the new senior secured revolving credit facility, the Company recorded a charge to write off $0.2 million or $0.01 per diluted share of unamortized loan costs during the second quarter.

The Company was in compliance with the covenants contained in the credit facility and the Senior Notes as of and for the years ended December 31, 2005 and 2006.

Acquisition debt consists of deferred purchase prices payable to sellers. The deferred purchase price notes bear interest at 0%, discounted at imputed interest rates ranging from 6% to 8%, with original maturities from three to 15 years.

The aggregate maturities of long-term debt for the next five years as of December 31, 2006 are approximately $1,613,000, $2,122,000, $511,000, $229,000 and $238,000, respectively and $130,818,000 thereafter.

13. CONVERTIBLE JUNIOR SUBORDINATED DEBENTURE PAYABLE TO AFFILIATE AND COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF CARRIAGE SERVICES CAPITAL TRUST

During June 1999, Carriage s wholly-owned subsidiary, Carriage Services Capital Trust, issued 1,875,000 units of 7% convertible preferred securities (TIDES), resulting in approximately $90 million in net proceeds, and the Company issued a 7% convertible junior subordinated debenture to the Trust in the amount of $93.75 million. The convertible preferred securities have a liquidation amount of $50 per unit, and are convertible into Carriage s Common Stock at the equivalent conversion price of $20.4375 per share of Common Stock. The subordinated debentures and the TIDES mature in 2029 and the TIDES are guaranteed on a subordinated basis by the Company. Both the subordinated debentures and the TIDES contain a provision for the deferral of distributions for up to 20 consecutive quarters. During the period in which distribution payments are deferred, distributions will continue to accumulate at the 7 percent annual rate. Also, the deferred distributions will themselves accumulate distributions at the annual rate of 7 percent. During the period in which distributions are deferred, Carriage is prohibited from paying dividends on its common stock or repurchasing its common stock, with limited exceptions. The Company deferred the distributions during the period September 2003 to January 2005. The Company brought the deferred distributions current during January 2005. There are no deferred distributions at December 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. COMMITMENTS AND CONTINGENCIES

Leases

Carriage leases certain office facilities, vehicles and equipment under operating leases for terms ranging from one to 15 years. Certain of these leases provide for an annual adjustment and contain options for renewal. Rent expense totaled $3,625,000, $3,805,000 and $3,735,000 for 2004, 2005 and 2006, respectively. Assets acquired under capital leases are included in property, plant and equipment in the accompanying consolidated balance sheets in the amount of $1,676,000 in 2005 and $1,387,000 in 2006, net of accumulated depreciation. Capital lease obligations are included in current and long-term debt as indicated below.

At December 31, 2006, future minimum lease payments under noncancellable lease agreements were as follows:

	Future Minimum Lease Payments	
	Operating Leases	Capital Leases
	(in thousands)	
Years ending December 31, 2007	$ 2,109	$ 613
2008	1,894	638
2009	1,314	664
2010	920	691
2011	777	713
Thereafter	3,200	11,782
Total future minimum lease payments	$ 10,214	$ 15,101
Less: amount representing interest (rates ranging from 7% to 11.5%)		(10,322)
Less: current portion of obligations under capital leases		(51)
Long-term obligations under capital leases		$ 4,728

Agreements and Employee Benefits

Carriage obtained various agreements not to compete from former owners of businesses acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to 10 years and provide for future payments annually, quarterly or monthly. The aggregate payments due under these agreements for the next five years total $1,214,000, $1,045,000, $686,000, $602,000 and $411,000, respectively and $1,115,000 thereafter.

The Company has entered into various consulting agreements with former owners of businesses acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to 10 years and provide for future payments monthly or bi-weekly. The aggregate payments for the next five years total $399,000, $331,000, $160,000, $50,000 and $18,000, respectively and $43,000 thereafter.

The Company has entered into employment agreements with the executive officers. These agreements are generally for two to five years and provide for future payments bi-weekly plus discretionary bonus payments. These payments due under these agreements for the next four years total $895,000, $270,000, $270,000, and $202,500, respectively. New employment agreements for certain executive officers are expected to be completed in 2007.

Carriage sponsors a defined contribution plan (401k) for the benefit of its employees. The Company s matching contributions and plan administrative expenses totaled $365,000, $268,000 and $217,000 for 2004, 2005 and 2006, respectively. The Company does not offer any post-retirement or post-employment benefits.

Other Commitments

In 2005, the Company entered into an agreement to outsource the processing of transactions for the cemetery business. The Company and the contractor may terminate the contract for various reasons upon written notification and set terms. Payments vary based on the level of resources provided. The Company paid $1.2 and $2.2 million to the contractor for services in 2005 and 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

Carriage and its subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial statements.

The Company self-insures against certain insurable risks and carries insurance with coverage and coverage limits for risks in excess of the self-insured amounts consistent with management s assessment of risks in the business and of an acceptable level of financial exposure. Although there can be no assurance that self-insurance reserves and insurance will be sufficient to mitigate all damages, claims or contingencies, management believes that the reserves and insurance provides reasonable coverage for known asserted or unasserted claims. In the event the Company sustained a loss from a claim and the insurance carrier disputed coverage or coverage limits, the Company may record a charge in a different period than the recovery, if any, from the insurance carrier.

15. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for 2004, 2005 and 2006 consisted of:

	2004	**2005**	**2006**
		(in thousands)	
Current:			
U. S. Federal	$	$	$ 227
State	141	241	491
Total current provision	141	241	718
Deferred:			
U. S. Federal	(156)	(302)	2,032
State	96	(395)	(375)
Total deferred provision (benefit)	(60)	(697)	1,657
Total income tax provision (benefit)	$ 81	$ (456)	$ 2,375

A reconciliation of taxes to the U.S. federal statutory rate to those reflected in the consolidated statements of operations for 2004, 2005 and 2006 is as follows:

	2004		**2005**		**2006**	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal statutory rate	$ 3,748	34.0%	$ (493)	34.0%	$ 2,108	34.0%
Effect of state income taxes, net of federal benefit	276	2.5	(36)	2.5	475	7.7
Effect of non-deductible expenses and other, net	120	1.1	214	(14.7)	101	1.6
Change in valuation allowance	(4,063)	(36.9)	(141)	9.7	(309)	(5.0)
	$ 81	0.7%	$ (456)	31.5%	$ 2,375	38.3%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities at December 31, 2005 and 2006 were as follows:

	2005	2006
	(in thousands)	
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 7,501	$ 5,927
Accrued liabilities and other	1,525	1,672
Amortization of non-compete agreements	1,579	1,813
Amortization and depreciation	(12,729)	(13,697)
Preneed revenue and costs, net	20,618	23,320
	18,494	19,035
Valuation allowance	(1,075)	(823)
Total net deferred tax assets	$ 17,419	$ 18,212
Current deferred tax asset	$ 1,525	$ 1,672
Non-current deferred tax asset	15,894	16,540
Total net deferred tax assets	$ 17,419	$ 18,212

The current deferred tax asset is included in Inventories and other current assets at December 31, 2005 and 2006. The non-current deferred tax asset is included in Deferred charges and other non-current assets at December 31, 2005 and 2006.

Carriage records a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the tax benefits will be realized. The Company reduced its valuation allowance and recorded deferred tax benefits in the amounts of $0.3 million (equal to $0.01 per diluted share) during 2006.

For federal income tax reporting purposes, Carriage has net operating loss carryforwards totaling $9.7 million available at December 31, 2006 to offset future Federal taxable income, which expire between 2021and 2025 if not utilized. Carriage also has approximately $79.5 million of state net operating loss carryforwards that will expire between 2007 and 2026, if not utilized. Based on management s assessment of the various state net operating losses, it was determined that it is more likely than not that the Company will not be able to realize tax benefits on a substantial amount of the state losses. The valuation allowance at December 31, 2006 is attributable to the deferred tax asset related to the state operating losses.

16. STOCKHOLDERS EQUITY

Stock Based Compensation Plans

During the period 2004 through 2006 Carriage had five stock benefit plans in effect under which stock option grants or restricted stock have been issued or remain outstanding: the 1995 Stock Incentive Plan (the 1995 Plan), the 1996 Stock Option Plan (the 1996 Plan), the 1996 Directors Stock Option Plan (the Directors Plan), the 1998 Stock Option Plan for Consultants (the Consultants Plan) and the 2006 Long Term Incentive Plan (the 2006 Plan). Substantially all of the options granted under the plans have ten-year terms. The 1995 Plan expired in 2005 and the 1996 Plan, the Director s Plan and the Consultants Plan were terminated during 2006 prior to the approval of the 2006 Plan at the annual shareholders meeting. The expiration and termination of these plans does not affect the options previously issued and outstanding.

All stock-based plans are administered by the Compensation Committee appointed by the Board of Directors. The 2006 Plan provides for grants of options as non-qualified options or incentive stock options, restricted stock, stock appreciation rights and performance awards. Options are granted with an exercise price equal to or greater than the then fair market value of Carriage s Common Stock as determined by the closing price on the date of the option grant. Because of changes in the Company s compensation philosophy, options have not been awarded to officers since 2003 and only a small percentage of the outstanding options are currently unvested.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. STOCKHOLDERS EQUITY (continued)

The status of each of the plans at December 31, 2006 are as follows (in thousands):

	Shares Reserved	Shares Available to Issue	Options Outstanding
1995 Plan			358
1996 Plan			642
Consultants Plan			8
Directors Plan			235
2006 Plan	1,350	1,309	
Total	1,350	1,309	1,243

A summary of the stock options at December 31, 2004, 2005 and 2006 and changes during the three years ended is presented in the table and narrative below:

	Year ended December 31,					
	2004		2005		2006	
	Shares (000)	Wtd. Avg. Ex Price	Shares (000)	Wtd. Avg. Ex Price	Shares (000)	Wtd. Avg. Ex Price
Outstanding at beginning of period	1,679	$ 3.57	1,616	$ 3.64	1,365	$ 3.39
Granted	110	4.74	24	6.02	24	4.81
Exercised	(134)	2.46	(178)	2.99	(87)	3.01
Canceled or expired	(39)	8.27	(97)	8.93	(59)	6.06
Outstanding at end of year	1,616	3.64	1,365	3.39	1,243	3.32
Exercisable at end of year	1,385	3.51	1,253	3.30	1,202	3.28
Weighted average fair value of options granted		$ 2.21		$ 3.22		$ 2.44

The aggregate intrinsic value of the outstanding and exercisable stock options at December 31, 2006 totaled $2,795,000 and $2,768,000 respectively.

The total intrinsic value of options exercised during 2004, 2005 and 2006 totaled $354,000, $357,000 and $155,000, respectively. As of December 31, 2006, there was $77,000 of unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options, which is expected to be recognized over a weighted average period of approximately one year. Pursuant to the Company s adoption of FAS 123R on January 1, 2006, the Company recorded compensation expense totaling $117,000 in 2006 related to the vesting of stock options.

The following table further describes the Company s outstanding stock options at December 31, 2006 (shares in thousands):

	Options Outstanding		Options Exercisable
Actual Range of	Number	Weighted-Average	Number

Exercise Prices 150% increment	Outstanding at 12/31/06	Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at 12/31/06	Weighted-Average Exercise Price
$1.19- 1.56	632	4.0	$ 1.49	632	$ 1.49
$2.06- 3.09	152	3.5	$ 2.89	151	$ 2.89
$3.12- 4.66	139	6.3	$ 4.21	102	$ 4.15
$4.77- 6.19	268	5.8	$ 5.06	266	$ 5.05
$7.56- 11.00	1	2.8	$ 8.06	1	$ 8.06
$13.25- 19.88	45	1.8	$ 15.09	45	$ 15.09
$21.00- 27.50	6	0.3	$ 21.19	5	$ 21.19
$1.19- 27.50	1,243	4.5	$ 3.32	1,202	$ 3.28

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. STOCKHOLDERS EQUITY (continued)

Employee Stock Purchase Plan

Carriage provides all employees the opportunity to purchase Common Stock through payroll deductions. Purchases are made quarterly; the price being 85% of the lower of the price on the grant date or the purchase date. In 2004, employees purchased a total of 120,195 shares at a weighted average price of $3.51 per share. In 2005, employees purchased a total of 86,354 shares at a weighted average price of $4.20 per share. During 2006, employees purchased a total of 74,536 shares at a weighted average price of $4.03 per share. Pursuant to the Company s adoption of FAS 123R on January 1, 2006, compensation cost totaling approximately $119,000 was expensed in 2006.

The fair values of stock options granted during the three years and grants at the beginning of each of the years pursuant to the Company s employee stock purchase plan (ESPP) were estimated using the following weighted average assumptions:

	Stock Options	ESPP
2006 Assumptions:		
Expected dividend yield	0%	0%
Expected volatility	58%	58%
Risk-free interest rate	4.25%	4.25%
Expected life (years)	5	.25,.50,.75,1

	Stock Options	ESPP
2005 Assumptions:		
Expected dividend yield	0%	0%
Expected volatility	50%	50%
Risk-free interest rate	4.04%	4.04%
Expected life (years)	5	.25,.50,.75,1

	Stock Options	ESPP
2004 Assumptions:		
Expected dividend yield	0%	0%
Expected volatility	47%	47%
Risk-free interest rate	3.00%	3.00%
Expected life (years)	5	.25,.50,.75,1

The expected life of the ESPP grants represents the calendar quarters from the grant date (January 1) to the purchase date (end of each quarter).

Restricted Stock Grants

The Company, from time to time, issues shares of restricted common stock to certain officers and key employees of the Company from the stock benefit plans. A summary of the status of unvested restricted stock awards as of December 31, 2006, and changes during 2006, is presented below:

Unvested stock awards	Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested at January 1, 2006	416,500	$ 4.71
Awards	35,000	4.81
Cancellations	(65,250)	4.92
Vestings	(137,500)	4.56

Unvested at December 31, 2006	248,750	4.76

The Company recognized $0.4, $0.6 and $0.5 million in compensation cost in 2004, 2005 and 2006, respectively, related to the vesting of restricted stock awards. As of December 31, 2006, there was $0.8 million of total unrecognized compensation costs related to unvested restricted stock awards, which is expected to be recognized over a weighted average period of 1.9 years

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. STOCKHOLDERS EQUITY (continued)

Director Compensation Plans

The Company also has a compensation plan for its outside directors under which directors may choose to accept fully vested shares of the Company s common stock for all or a portion of their annual retainer and meeting fees, and under which new directors receive an award of 20,000 shares of common stock at the time of their initial election to the Board, 50% of which are vested at the grant date and 25% of which vests on the first and second anniversary of the grant. The value of the shares at the grant date is charged to expense as the shares vest. During the three years 2004 through 2006, the Company issued shares of common stock to directors totaling 19,639, 13,709 and 16,649 respectively, in lieu of payment in cash for their fees, the value of which was charged to operations. Additionally, the non-executive officer directors received a grant of 6,000 fully vested stock options each on the date of the annual stockholders meeting during 2004, 2005 and 2006. Pursuant to the Company s adoption of FAS 123R at the beginning of 2006, the fair value of the 2006 option grants totaling $59,000 was charged to operations.

17. PREFERRED STOCK

The Company has 40,000,000 authorized shares of preferred stock, none of which is currently issued and outstanding.

18. RELATED PARTY TRANSACTIONS

As an incentive, the Company entered into an arrangement with a former owner, who also serves as a director to pay him 10% of the amount by which the annual field level cash flow exceeds predetermined targets on certain businesses in California through 2006, with a final payment payable in 2007 equal to a multiple of six times the average of the last three years payments. The business purpose of the arrangement was to incentivise the individual to provide Carriage with high quality acquisition targets and to have input in the competitive strategies of those businesses post-acquisition so that cash flows grow over time. The terms were determined by reference to similar arrangements within the death care industry. The incentives earned by the director totaled approximately $110,000, $276,000 and $344,000 for the years 2004, 2005 and 2006, respectively, and a final payment of $1,452,000 payable in the first quarter of 2007.

19. EARNINGS PER SHARE

The following table sets forth the computation of the basic and diluted earnings per share for 2004, 2005 and 2006:

	2004	2005	2006
	(in thousands, except per share data)		
Numerator:			
Net income (loss) from continuing operations	$ 9,953	$ (993)	$ 3,826
Net income (loss) from discontinued operations	(719)	1,884	(5,242)
Cumulative effect of change in accounting method		(22,756)	
Numerator for earnings per share net income (loss)	$ 9,234	$ (21,865)	$ (1,416)
Denominator:			
Denominator for basic earnings per share weighted average shares	17,786	18,334	18,545
Effect of dilutive securities:			
Stock options	474		367
Denominator for diluted earnings per share weighted average shares and assumed	18,260	18,334	18,912
Basic earnings (loss) per share:			
Continuing operations	$ 0.56	$ (0.05)	$ 0.21
Discontinued operations	(0.04)	0.10	(0.29)

Cumulative effect of change in accounting method				(1.24)		
Net income (loss)	$	0.52	$	(1.19)	$	(0.08)
Diluted earnings (loss) per share:						
Continuing operations	$	0.55	$	(0.05)	$	0.20
Discontinued operations		(0.04)		0.10		(0.28)
Cumulative effect of change in accounting method				(1.24)		
Net income (loss)	$	0.51	$	(1.19)	$	(0.08)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EARNINGS PER SHARE (continued)

Options to purchase 0.2 million shares were not included in the computation of diluted earnings per share for the year ended December 31, 2004, because the effect would be antidilutive as the average market price of the common shares.

Options to purchase 1.2 million shares were not included in the computation of diluted earnings per share for the year ended December 31, 2005, because the effect would be antidilutive and 0.1 million shares because the exercise prices were greater than the average market price of the common shares.

Options to purchase 0.1 million shares were not included in the computation of diluted earnings per share for the year ended December 31, 2006, because the effect would be antidilutive as the exercise prices were greater than the average market price of the common shares.

20. MAJOR SEGMENTS OF BUSINESS

Carriage conducts funeral and cemetery operations only in the United States.

	Funeral	Cemetery	Corporate	Consolidated
	(in thousands, except number of operating locations)			
External revenues from continuing operations:				
2006	$114,927	$ 36,159	$	$ 151,086
2005	111,643	37,555		149,198
2004	108,478	36,115		144,593
Net income (loss) from continuing operations:				
2006	$ 18,923	$ 2,540	$(17,637)	$ 3,826
2005	18,389	4,265	(23,647)	(993)
2004	17,554	5,442	(13,043)	9,953
Total assets:				
2006	$309,140	$181,225	$ 74,631	$ 564,996
2005	322,497	189,684	58,459	570,640
2004	344,940	205,230	14,986	565,156
Depreciation and amortization:				
2006	$ 5,085	$ 2,171	$ 1,432	$ 8,688
2005	5,035	3,028	1,273	9,336
2004	6,260	3,127	1,260	10,647
Capital expenditures:				
2006	$ 2,769	$ 2,154	$ 1,464	$ 6,387
2005	2,893	2,846	2,386	8,125
2004	3,484	1,140	1,142	5,766
Number of operating locations at year end:				
2006	131	28		159
2005	133	29		162

2004	135	30		165
Interest expense				
2006	$ 612	$ 97	$ 17,805	$ 18,514
2005	746	107	17,746	18,599
2004	879	116	15,913	16,908
Income tax expense (benefit) from continuing operations:				
2006	$ 10,571	$ 1,307	$ (9,503)	$ 2,375
2005	10,059	2,152	(12,667)	(456)
2004	10,149	3,022	(13,090)	81

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SUPPLEMENTAL DISCLOSURE OF STATEMENT OF OPERATIONS INFORMATION

	For the year ended		
	2004	2005	2006
Revenues Goods:			
Funeral	$ 47,460	$ 48,594	$ 49,451
Cemetery	$ 26,092	$ 26,773	$ 24,385
Total goods	$ 73,552	$ 75,367	$ 73,836
Services:			
Funeral	$ 61,018	$ 63,049	$ 65,476
Cemetery	$ 10,023	$ 10,782	$ 11,774
Total services	$ 71,041	$ 73,831	$ 77,250
Total revenues	$ 144,593	$ 149,198	$ 151,086
Cost of revenues			
Goods:			
Funeral	$ 44,120	$ 45,599	$ 46,297
Cemetery	$ 19,620	$ 22,190	$ 23,009
Total goods	$ 63,740	$ 67,789	$ 69,306
Services:			
Funeral	$ 35,774	$ 36,852	$ 38,521
Cemetery	$ 7,917	$ 8,840	$ 9,207
Total services	$ 43,691	$ 45,692	$ 47,728
Total cost of revenues	$ 107,431	$ 113,481	$ 117,034

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables below set forth consolidated operating results by fiscal quarter for the years ended December 31, 2005 and 2006, in thousands, except earnings per share.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Revenue from continuing operations	$ 41,042	$ 37,253	$ 35,125	$ 37,666
Gross profit from continuing operations	10,684	8,038	5,647	9,683
Income (loss) from continuing operations	2,263	629	(502)	1,436
Income (loss) from discontinued operations	(3,998)	74	(63)	(1,255)
Net income (loss)	$ (1,735)	$ 703	$ (565)	$ 181
Basic earnings per common share:				
Income (loss) from continuing operations	$ 0.12	$ 0.04	$ (0.03)	$ 0.08
Loss from discontinued operations	(0.21)			(0.07)
Net income (loss) per basic share	$ (0.09)	$ 0.04	$ (0.03)	$ 0.01
Diluted earnings per common share:				
Income (loss) from continuing operations	$ 0.12	$ 0.04	$ (0.03)	$ 0.08
Loss from discontinued operations	(0.21)			(0.07)
Net income (loss) per diluted share	$ (0.09)	$ 0.04	$ (0.03)	$ 0.01
2005				
Revenue from continuing operations	$ 40,172	$ 36,675	$ 35,091	$ 37,260
Gross profit from continuing operations	11,522	8,516	7,674	8,005
Income (loss) from continuing operations	(1,563)	92	17	461
Income from discontinued operations	759	140	653	332
Cumulative effect of change in accounting method	(22,756)			
Net income (loss)	$ (23,560)	$ 232	$ 670	$ 793
Basic earnings per common share:				
Income (loss) from continuing operations	$ (0.09)	$ 0.01	$	$ 0.02
Income from discontinued operations	0.04		0.04	0.02
Cumulative effect of change in accounting method	(1.24)			
Net income (loss) per basic share	$ (1.29)	$ 0.01	$ 0.04	$ 0.04
Diluted earnings per common share:				
Income (loss) from continuing operations	$ (0.09)	$ 0.01	$	$ 0.02
Income from discontinued operations	0.04		0.04	0.02
Cumulative effect of change in accounting method	(1.24)			
Net income (loss) per diluted share	$ (1.29)	$ 0.01	$ 0.04	$ 0.04

(a) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts does not equal the total computed for the year due to rounding and stock transactions which occurred during the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following information is supplemental disclosure for the Consolidated Statement of Cash Flows (in thousands):

	Year Ended December 31, 2004	2005	2006
Cash paid for interest and financing costs	$ 9,854	$33,169	$ 18,096
Cash paid (refunded) for income taxes	$ (2)	$ 275	$ (312)
Stock issued to directors or officers	$ 466	$ 1,338	$ 168
Net (gain) loss on sale of business assets	$ 650	$ 582	$ (513)
Loss on early extinguishment of debt	$	$ 978	$
Loss on sale of trust investments	$ 235	$	$
Net deposits in preneed funeral trust investments	$ (6,190)	$ (5,138)	$ (5,731)
Net deposits in cemetery trust investments	$ (4,412)	$ (3,095)	$ (5,463)
Net deposits in perpetual care trust investments	$ (393)	$ (1,155)	$ (5,227)
Net withdrawals in preneed funeral trust receivables	$ 1,834	$ 1,195	$ 617
Net (deposits) withdrawals in cemetery trust receivables	$ 1,522	$ (467)	$ 1,311
Net withdrawals in preneed funeral contracts	$ 1,164	$ 663	$ 604
Net deposits in preneed funeral trust accounts increasing deferred revenue	$ 6,300	$ 2,318	$ 5,006
Net deposits (withdrawals) in cemetery trust accounts increasing (decreasing) deferred revenue	$ (2,108)	$10,074	$ 5,089
Net deposits (withdrawals) in preneed funeral trust accounts increasing (decreasing) noncontrolling interests	$ (1,284)	$ 1,304	$ (1,310)
Net deposits (withdrawals) in cemetery trust accounts increasing	$ 3,919	$ (379)	$ 716

(decreasing) noncontrolling interests			
Deposits in perpetual care trust accounts increasing noncontrolling interests	$ 29	$ 900	$ 3,120
Proceeds from the issuance of common stock through the employee stock purchase plan	$ 377	$ 406	$ 311
Proceeds from the exercise of stock options	$ 309	$ 530	$ 256
Restricted cash investing and financing activities:			
Proceeds from the sale of available for sale securities of the funeral and cemetery trusts	$51,323	$51,775	$ 73,887
Purchase of available for sale securities of the funeral and cemetery trusts	$59,644	$61,223	$ 62,323
Net deposits (withdrawals) in trust accounts increasing (decreasing) noncontrolling interests	$ (878)	$ (2,123)	$(11,789)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. SUBSEQUENT BUSINESS ACQUISITION AND SALES

Effective January 1, 2007, the Company acquired a combination funeral home and cemetery business and a funeral home business in Texas. The Company acquired substantially all the assets and assumed certain operating liabilities including obligations associated with existing preneed contracts in exchange for $11.1 million in cash.

On January 16, 2007, the Company completed the sale of a funeral home business that was held for sale at December 31, 2006. The Company received net cash proceeds of $1.0 million. Losses of less than $0.1 million were recorded due to additional expenses related to the sale of the business. On February 26, 2007, the Company closed on a sale of a funeral business that was held for sale at December 31, 2006. The sale transaction generated net cash proceeds totaling $1.4 million and a gain of approximately $0.7 million.

In November 2006, the Company entered into an Agreement to acquire substantially all the assets and assume certain liabilities of a combination funeral home and cemetery business in California in exchange for a cash payment at closing in the amount of $8.0 million. The acquisition is expected to close in April 2007.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Carriage Services, Inc.:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Carriage Services, Inc. and subsidiaries for 2006 and 2005 included in this Form 10-K, and have issued our report thereon dated March 9, 2007. Our audits for the years ended December 31, 2006, 2005 and 2004, were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Part IV, Item 15 (a)(2) for Carriage Services, Inc. and subsidiaries is the responsibility of the Company s management and is presented for purposes of complying with the Securities and Exchange Commission s rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for preneed selling costs in 2005, and as discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

/s/ KPMG LLP
Houston, Texas
March 9, 2007

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CARRIAGE SERVICES, INC.
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Beginning of year	Charged to Costs and Expenses	Deduction	Balance End of Year
Year ended December 31, 2004:				
Allowance for bad debts, current portion	$ 1,807	$ 575	$ 1,442	$ 940
Allowance for cemetery bad debts and contract cancellations, noncurrent portion	$ 683	$ 1,610	$ 1,746	$ 547
Environmental remediation reserves	$ 121	$	$ 18	$ 103
Employee severance accruals	$ 1,435	$ 395	$ 808	$ 1,022
Office closing and other accruals	$ 839	$	$ 507	$ 332
Year ended December 31, 2005:				
Allowance for bad debts, current portion	$ 940	$ 2,024	$ 2,027	$ 937
Allowance for cemetery bad debts and contract cancellations, noncurrent portion	$ 547	$ 624	$ 693	$ 478
Environmental remediation reserves	$ 103	$ 110	$ 70	$ 143
Employee severance accruals	$ 1,022	$ 355	$ 1,220	$ 157
Office closing and other accruals	$ 332	$ 3	$ 265	$ 70
Year ended December 31, 2006:				
Allowance for bad debts, current	$ 937	$ 1,932	$ 1,944	$ 925

portion				
Allowance for cemetery bad debts and contract cancellations, noncurrent portion	$ 478	$ 1,948	$ 1,934	$ 492
Environmental remediation reserves	$ 143	$ 1,033	$ 824	$ 352
Employee severance accruals	$ 157	$ 451	$ 482	$ 126
Office closing and other accruals	$ 70	$	$ 70	$

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures to ensure that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective, as of December 31, 2006 (the end of the period covered by this Annual Report on Form 10-K).

Assessment of Internal Control Over Financial Reporting

Management s report on our internal control over financial reporting is presented on page 30 of this Annual Report on Form 10-K. The report of KPMG LLP relating to management s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, the Consolidated Financial Statements and the financial statement schedule are presented on pages 31, 32 and 65, respectively, of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Our management report on internal control over financial reporting for the year ended December 31, 2006 did not report any material weaknesses in our internal control over financial reporting or any changes in our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTIORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the registrant s definitive proxy statement relating to its 2007 annual meeting of stockholders, which proxy statement will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), within 120 days after the end of the last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the registrant s definitive proxy statement relating to its 2007 annual meeting of stockholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference to the registrant s definitive proxy statement relating to its 2007 annual meeting of stockholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the registrant s definitive proxy statement relating to its 2007 annual meeting of stockholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the registrant s definitive proxy statement relating to its 2007 annual meeting of stockholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1 FINANCIAL STATEMENTS

The following financial statements and the Report of Independent Registered Public Accounting Firm are filed as a part of this report on the pages indicated:

(a) 2 FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule and the Report of Independent Registered Public Accounting Firm on Financial Statement Schedule are included in this report on the pages indicated:

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related notes.

(a) 3 EXHIBITS

The exhibits to this report have been included only with the copies of this report filed with the Securities and Exchange Commission. Copies of individual exhibits will be furnished to stockholders upon written request to Carriage Services, Inc. and payment of a reasonable fee.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation, as amended, of the Company. Incorporated herein by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
3.2	Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.3	Certificate of Amendment dated May 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 2002.
3.4	Certificate of Designation of the Company s Series G Junior Participating Preferred Stock. Incorporated by reference to Exhibit C to the Rights Agreement with American Stock Transfer & Trust Company dated December 18, 2000, which is attached as Exhibit 1 to the Company s Form 8-A filed December 29, 2000.
3.5	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 (File No. 333-05545).

3.6 Amendments to the Bylaws of the Company effective December 18, 2000. Incorporated by

Exhibit No.	Description
	reference to Exhibit 3.9 to the Company s Annual Report on Form 10-K for its year ended December 31, 2001.
4.1	Certificate of Trust of Carriage Services Capital Trust. Incorporated by reference to Exhibit 4.6 to the Company s Form S-3 Registration Statement No. 333-84141.
4.2	Amended and Restated Declaration of Trust of Carriage Services Capital Trust, dated June 3, 1999 among the Company, Wilmington Trust Company, Wilmington Trust Company, and Mark W. Duffey, Thomas C. Livengood and Terry E. Sanford. Incorporated by reference to Exhibit 4.7 to the Company s Form S-3 Registration Statement No. 333-84141.
4.3	Indenture for the Convertible Junior Subordinated Debentures due 2029 dated June 3, 1999 between the Company and Wilmington Trust Company. Incorporated by reference to Exhibit 4.8 to the Company s Form S-3 Registration Statement No. 333-84141.
4.4	Form of Carriage Services Capital Trust 7% Convertible Preferred Securities. Incorporated by reference to Exhibit 4.10 to the Company s Form S-3 Registration Statement No. 333-84141.
4.5	Form of the Company s Convertible Junior Subordinated Debentures due 2029. Incorporated by reference to Exhibit 4.11 to the Company s Form S-3 Registration Statement No. 333-84141.
4.6	Preferred Securities Guarantee dated June 3, 1999 between the Company and Wilmington Trust Company. Incorporated by reference to Exhibit 4.12 to the Company s Form S-3 Registration Statement No. 333-84141.
4.7	Common Securities Guarantee, dated June 3, 1999 by Carriage Services, Inc. as Guarantor. Incorporated by reference to Exhibit 4.13 to the Company s Form S-3 Registration Statement No. 333-84141.
4.8	Amendment No. 1 to Amended and Restated Declaration of Trust of Carriage Services Capital Trust. Incorporated by reference to Exhibit 4.14 to the Company s Form S-3 Registration Statement No. 333-84141.
4.9	Rights Agreement with American Stock Transfer & Trust Company dated December 18, 2000. Incorporated by reference to Exhibit 1 to the Company s Form 8-A filed December 29, 2000.
4.10	Indenture dated as of January 27, 2005 between Carriage Services, Inc., the Guarantors named therein, as Guarantors, and Wells Fargo Bank, National Association, as trustee. Incorporated herein by reference to Exhibit 4.1 to the Company s current report on Form 8-K dated January 27, 2005.
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10.2	Amendment No. 2 to 1996 Stock Option Plan. Incorporated by reference to Exhibit 10.2 to the Company s Form S-8 Registration Statement No. 333-85961.
10.3	Second Amended and Restated 1996 Stock Incentive Plan. Incorporated by reference to Appendix C to the Company s 2005 Schedule 14A.
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18.1	Preferability letter from registered public accounting firm regarding change in accounting method dated August 1, 2005. Incorporated by reference to Exhibit 18.1 to the Company s Quarterly Report on Form 10-Q for its quarter ended June 30, 2005.
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*31.1	Certification of Periodic Financial Reports by Melvin C. Payne in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Periodic Financial Reports by Joseph Saporito in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*32	Certification of Periodic Financial Reports by Melvin C. Payne and Joseph Saporito in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002.

(*) Filed herewith.

( ) Management contract or compensatory plan or arrangement required to be filed as an exhibit hereto.

Table of Contents

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON MARCH 9, 2007.

CARRIAGE SERVICES, INC.

By: /s/ Melvin C. Payne

Melvin C. Payne
Chairman of the Board, Chief Executive Officer, and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Melvin C. Payne **Melvin C. Payne**	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	March 9, 2007
/s/ Joseph Saporito **Joseph Saporito**	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)	March 9, 2007
/s/ Terry E. Sanford **Terry E. Sanford**	Senior Vice President, Treasurer and Chief Accounting Officer (Principal Accounting Officer)	March 9, 2007
/s/ Joe R. Davis **Joe R. Davis**	Director	March 9, 2007
/s/ Ronald A. Erickson **Ronald A. Erickson**	Director	March 9, 2007
/s/ Vincent D. Foster **Vincent D. Foster**	Director	March 9, 2007
/s/ Mark F. Wilson **Mark F. Wilson**	Director	March 9, 2007

Index to Exhibits

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3.1	Amended and Restated Certificate of Incorporation, as amended, of the Company. Incorporated herein by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
3.2	Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.3	Certificate of Amendment dated May 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 2002.
3.4	Certificate of Designation of the Company s Series G Junior Participating Preferred Stock. Incorporated by reference to Exhibit C to the Rights Agreement with American Stock Transfer & Trust Company dated December 18, 2000, which is attached as Exhibit 1 to the Company s Form 8-A filed December 29, 2000.
3.5	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 (File No. 333-05545).
3.6	Amendments to the Bylaws of the Company effective December 18, 2000. Incorporated by reference to Exhibit 3.9 to the Company s Annual Report on Form 10-K for its year ended December 31, 2001.
4.1	Certificate of Trust of Carriage Services Capital Trust. Incorporated by reference to Exhibit 4.6 to the Company s Form S-3 Registration Statement No. 333-84141.
4.2	Amended and Restated Declaration of Trust of Carriage Services Capital Trust, dated June 3, 1999 among the Company, Wilmington Trust Company, Wilmington Trust Company, and Mark W. Duffey, Thomas C. Livengood and Terry E. Sanford. Incorporated by reference to Exhibit 4.7 to the Company s Form S-3 Registration Statement No. 333-84141.
4.3	Indenture for the Convertible Junior Subordinated Debentures due 2029 dated June 3, 1999 between the Company and Wilmington Trust Company. Incorporated by reference to Exhibit 4.8 to the Company s Form S-3 Registration Statement No. 333-84141.
4.4	Form of Carriage Services Capital Trust 7% Convertible Preferred Securities. Incorporated by reference to Exhibit 4.10 to the Company s Form S-3 Registration Statement No. 333-84141.
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4.6	Preferred Securities Guarantee dated June 3, 1999 between the Company and Wilmington Trust Company. Incorporated by reference to Exhibit 4.12 to the Company s Form S-3 Registration Statement No. 333-84141.
4.7	Common Securities Guarantee, dated June 3, 1999 by Carriage Services, Inc. as Guarantor. Incorporated by reference to Exhibit 4.13 to the Company s Form S-3 Registration Statement No. 333-84141.

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