

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

INSIGNIA FINANCIAL GROUP INC /DE/
Form 10-Q
November 13, 2002

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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 1-14373

INSIGNIA FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State of Incorporation)

56-2084290
(I.R.S. Employer Identification No.)

200 PARK AVENUE, NEW YORK, NEW YORK
(Address of Principal Executive Offices)

10166
(Zip Code)

(212) 984-8033
(Registrant's Telephone Number, Including Area Code)

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

At October 31, 2002 the Registrant had 23,237,690 shares of common stock outstanding.

=====

INSIGNIA FINANCIAL GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

INDEX

	Page
PART I -- FINANCIAL INFORMATION	
Item 1. Financial Statements	2
Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2002 and 2001	2-3
Consolidated Balance Sheets at September 30, 2002 and December 31, 2001.....	4
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001.....	5
Notes to Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	25
Item 3. Quantitative and Qualitative Disclosure of Market Risk....	41
Item 4. Controls and Procedures.....	41
PART II -- OTHER INFORMATION	
Item 1. Legal Proceedings.....	42
Item 6. Exhibits and Reports on Form 8-K.....	42
SIGNATURES	43

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

INSIGNIA FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30		
	2002	2001	20
REVENUES			
Real estate services	\$ 187,802	\$ 146,306	\$ 51
Property operations	2,380	720	
	190,182	147,026	52
COSTS AND EXPENSES			
Real estate services	169,435	140,116	47
Property operations	1,881	186	
Administrative	4,502	2,399	1
Depreciation	4,541	3,954	1
Property depreciation	445	316	
Amortization of intangibles	1,030	5,829	
	181,834	152,800	50

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Operating income (loss)	8,348	(5,774)	1
OTHER INCOME AND EXPENSES:			
Interest income	846	971	
Other income, net	1,295	17	
Interest expense	(2,406)	(3,091)	(
Property interest expense	(670)	(305)	(
Losses from internet investments	--	(1,779)	
Equity earnings in real estate	70	234	
	-----	-----	-----
Income (loss) from continuing operations before income taxes	7,483	(9,727)	1
Income tax (expense) benefit	(3,367)	4,331	(
	-----	-----	-----
Income (loss) from continuing operations	4,116	(5,396)	
Discontinued operations, net of applicable taxes:			
Income (loss) from operations	--	926	
Adjustment to loss on disposal	4,653	--	
	-----	-----	-----
Income (loss) before cumulative effect of a change in accounting principle	8,769	(4,470)	1
Cumulative effect of a change in accounting principle, net of applicable tax benefit	--	--	(2
	-----	-----	-----
Net income (loss)	8,769	(4,470)	(
Preferred stock dividends	(800)	(250)	(
	-----	-----	-----
Net income (loss) available to common shareholders	\$ 7,969	\$ (4,720)	\$ (1
	=====	=====	=====

2

INSIGNIA FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(In thousands, except per share data)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30	
	2002	2001
	-----	-----
PER SHARE AMOUNTS: Earnings per common share -- basic:		
Income (loss) from continuing operations	\$ 0.14	\$ (0.25)
Income (loss) from discontinued operations	0.20	0.04
Cumulative effect of a change in accounting principle	--	--
	-----	-----

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Net income (loss)	\$ 0.34	\$ (0.21)
	=====	=====
Earnings per common share -- diluted:		
Income (loss) from continuing operations	\$ 0.14	\$ (0.25)
Income (loss) from discontinued operations	0.20	0.04
Cumulative effect of a change in accounting principle	--	--
	-----	-----
Net income (loss)	\$ 0.34	\$ (0.21)
	=====	=====
Weighted average common shares outstanding and assumed conversions:		
-- Basic	23,198	22,214
	=====	=====
-- Assuming dilution	23,593	22,214
	=====	=====

See Notes to Consolidated Financial Statements.

3

INSIGNIA FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	SEPTEMBER 30	D
	2002	
	-----	-----
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 90,041	
Receivables, net of allowance of \$6,605 (2002) and \$5,972 (2001)	155,984	
Restricted cash	22,973	
Property and equipment, net	57,424	
Real estate investments, net	135,717	
Goodwill, less accumulated amortization of \$57,992 (2001)	281,277	
Acquired intangible assets, less accumulated amortization of \$63,989 (2002) and \$57,145 (2001)	18,184	
Deferred taxes	42,202	
Other assets	28,704	
Assets of discontinued operation	--	

Total assets	\$ 832,506	
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 11,339	
Commissions payable	58,224	
Accrued incentives	35,554	
Accrued and sundry	90,236	
Deferred taxes	8,185	
Notes payable	149,502	
Real estate mortgages	66,718	

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Liabilities of discontinued operation	--

Total liabilities	419,758
Stockholders' Equity:	
Common stock, par value \$.01 per share -- authorized 80,000,000 shares, 23,203,149 (2002) and 22,852,034 (2001) issued and outstanding shares, net of 1,502,600 (2002 and 2001) shares held in treasury	232
Preferred stock, par value \$.01 per share -- authorized 20,000,000 shares, Series A, 250,000 (2002), Series B, 125,000 (2002) and 250,000 (2001) issued and outstanding shares	4
Additional paid-in capital	437,275
Notes receivable for common stock	(1,227)
Accumulated deficit	(21,778)
Accumulated other comprehensive loss	(1,758)

Total stockholders' equity	412,748

Total liabilities and stockholders' equity	\$ 832,506
	=====

NOTE: The Balance Sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States (GAAP) for complete financial statements.

See Notes to Consolidated Financial Statements.

4

INSIGNIA FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001
	-----	-----
OPERATING ACTIVITIES		
Income (loss) from continuing operations	\$ 6,883	\$ (6,927)
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities:		
Depreciation and amortization	18,724	30,528
Equity earnings in real estate ventures	(1,516)	(1,288)
Gain on sale of real estate property	(1,306)	--
Losses from internet investments	--	8,870
Changes in operating assets and liabilities:		
Accounts receivable	22,329	47,081
Other assets	(5,131)	(11,533)
Accrued incentives	(29,069)	(53,894)
Accounts payable and accrued expenses	(18,532)	(29,081)
Commissions payable	(28,345)	(28,406)
	-----	-----

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Net cash used in operating activities	(35,963)	(44,650)
	-----	-----
INVESTING ACTIVITIES		
Payments made for acquisition of businesses	(9,923)	(10,003)
Proceeds from sale of real estate	35,287	40,240
Proceeds from sale of discontinued operation	23,250	--
Investment in internet-based businesses	--	(3,795)
Investment in real estate	(46,384)	(7,157)
Distributions from real estate investments	14,463	4,821
Additions to property and equipment, net	(7,892)	(10,721)
Increase in restricted cash	(127)	(19,371)
	-----	-----
Net cash provided by (used in) investing activities	8,674	(5,986)
	-----	-----
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	685	1,243
Proceeds from issuance of preferred stock, net	12,270	--
Proceeds from exercise of stock options	606	2,077
Preferred stock dividends	(1,032)	(1,000)
Proceeds from notes payable	15,000	143,999
Payment on notes payable	(36,722)	(134,337)
Proceeds from real estate mortgages	20,000	513
Payments on real estate mortgages	(28,438)	(33,086)
Debt issuance costs	(1,086)	(2,130)
	-----	-----
Net cash used in financing activities	(18,717)	(22,721)
	-----	-----
Net cash provided by (used in) discontinued operations	1,715	(1,070)
Effect of exchange rate changes on cash	2,472	(14)
	-----	-----
Net decrease in cash and cash equivalents	(41,819)	(74,441)
Cash and cash equivalents at beginning of period	131,860	124,527
	-----	-----
Cash and cash equivalents at end of period	\$ 90,041	\$ 50,086
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 6,489	\$ 7,343
Cash paid for taxes	5,315	6,859

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Business

Insignia Financial Group, Inc. ("Insignia" or the "Company"), a Delaware corporation headquartered in New York, New York, is a leading provider of international real estate and real estate financial services, with operations in the United States, the United Kingdom, France, continental Europe, Asia and Latin America. Insignia's principal executive offices are located at 200 Park

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Avenue, New York, New York 10166, and its telephone number is (212) 984-8033.

Insignia's real estate service businesses specialize in commercial leasing, sales brokerage, corporate real estate consulting, property management, property development and re-development, apartment brokerage and leasing, condominium and cooperative apartment management, real estate-oriented financial services, equity co-investment and other services. Insignia's primary real estate service businesses include the following: Insignia/ESG (U.S. commercial real estate services), Insignia Richard Ellis (U.K. commercial real estate services), Insignia Bourdais (French commercial real estate services; acquired in December 2001), Insignia Douglas Elliman (New York apartment brokerage and leasing) and Insignia Residential Group (New York condominium, cooperative and rental apartment management). Insignia's commercial real estate service operations in continental Europe, Asia and Latin America include the following locations: Madrid and Barcelona, Spain; Frankfurt, Germany; Milan and Bologna, Italy; Brussels, Belgium; Amsterdam, The Netherlands; Tokyo, Japan; Hong Kong, Beijing and Shanghai, China; Bangkok, Thailand; Mumbai, Hyderabad, Bangalore, Chennai and Delhi, India; Manila, Philippines; and Mexico City, Mexico. The Company also holds a 10% ownership interest in a commercial services business with operations in Dublin, Ireland and Belfast, Northern Ireland.

Insignia also provides real estate services -- through an affiliate program launched in 2001 -- in secondary markets in the U.S. and around the globe where the Company wants to meet the needs of its multi-market clients without owning the operations. Under this program, regional service providers agree to serve as Insignia's exclusive representative within a market and to adopt Insignia's branding, marketing standards and governance protocols. Insignia has no economic interest in the regional service providers, which pay Insignia a fee for joining the affiliate program. Insignia has established U.S. affiliations with service providers in Pittsburgh, Baltimore, Seattle and Indianapolis and foreign affiliations in the U.K., France, Denmark, Sweden and South Africa. In France, twenty affiliate offices were gained as part of the Groupe Bourdais acquisition.

In addition to traditional real estate services, Insignia deploys its own capital, together with the capital of third party investors, in principal real estate investments, including co-investment in existing property assets, real estate development and managed private investment funds. The Company's real estate service operations and principal real estate investment activities are more fully described below.

2. Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2002 is not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

3. Reclassifications

Certain amounts for the prior year have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on net income.

4. Significant Accounting Policies

Revenue Recognition

The Company's real estate services revenues are generally recorded when the related services are performed or at closing in the case of real estate sales. Leasing commissions that are payable upon tenant occupancy, payment of rent or other events beyond the Company's control are recognized upon the occurrence of such events. As certain conditions to revenue recognition for leasing commissions are outside of the Company's control and are not clearly defined, judgment must be exercised in determining when such required events to recognition have occurred. Revenues from tenant representation, agency leasing, investment sales and residential brokerage, which collectively comprise a substantial portion of Insignia's service revenues, are transactional in nature and therefore subject to seasonality and changes in business and capital market conditions. As a consequence, the timing of transactions and resulting revenue recognition is difficult to predict.

Insignia's revenue from property management services is generally based upon percentages of the revenue generated by the properties that it manages. In conjunction with the provision of management services, the Company customarily employs personnel (either directly or on behalf of the property owner) to provide services solely to the properties managed. In most instances, Insignia is reimbursed by the owners of managed properties for direct payroll related costs incurred in the employment of property personnel. The aggregate amount of payroll costs reimbursed exceeds \$75 million annually. Such payroll reimbursements are generally characterized in the Company's consolidated statements of operations as a reduction of actual expenses incurred. This characterization is based on the following factors: (i) the property owner generally has authority over hiring practices and the approval of payroll prior to payment by the Company; (ii) Insignia is the primary obligor with respect to the property personnel, but bears little or no credit risk under the terms of the management contract; (iii) reimbursement to the Company is generally completed simultaneously with payment of payroll or soon thereafter; and (iv) the Company generally earns no margin in the arrangement, obtaining reimbursement only for actual cost incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions are used in the evaluation and financial reporting for, among other things, bad debts, self-insurance liabilities, intangibles and investment valuations, deferred taxes and pension costs. Actual results could differ from those estimates under different assumptions or conditions.

Real Estate Investments

Insignia invests in real estate and real estate related assets. Generally, the Company's investment strategy involves identifying investment opportunities and investing as a minority owner in entities formed to acquire such assets. The Company's minority-owned investments are generally accounted for under the equity method of accounting due to the Company's influence over the operational decisions made with respect to the real estate entities. The Company's portion of earnings in these real estate entities is reported in equity earnings in real estate in its consolidated statements of operations, including gains on sales of property and net of impairments. Conversely, income from dispositions of minority-owned development assets is reported in real estate services revenues

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

in the Company's consolidated statements of operations. The Company's policy with respect to the timing of recognition of promoted profit participation interests in its real estate investments is to record such amounts upon collection.

Each entity in which the Company holds a real estate investment is a special purpose entity, the assets of which are subject to the obligations only of that entity. Each entity's debt, except for limited and specific guarantees aggregating \$14.2 million (see discussion of Liquidity and Capital Resources in Item 2 of this Form 10-Q), is either (i) non-recourse except to the real estate assets of the subject entity (subject to carve-outs standard in such non-recourse financing, including the misapplication of rents or environmental liabilities), or (ii) an obligation solely of such limited liability entity and thus is non-recourse to other assets of the Company.

The Company provides real estate services to and receives real estate service fees from the entities comprising its principal investment activities. Such fees are generally derived from the following services: (i) property management, (ii) asset management, (iii) development management, (iv) investment management, (v) leasing, (vi)

7

acquisition, (vii) sales or (viii) financings. With respect to fees that are currently recorded as expense by the entities, the Company includes the fees in current income, while its share as owner of such fee is reflected in the income or loss from the investment entity. If the fee is capitalized by the investment entity, the Company records only the portion of the fee attributable to third party ownership and defers the portion attributable to its ownership.

The Company evaluates all real estate investments on a quarterly basis for evidence of impairment. Impairment losses are recognized whenever events or changes in circumstances indicate declines in value of such investments below carrying value and the related undiscounted cash flows are not sufficient to recover the asset's carrying amount. Generally, Insignia relies upon the expertise of its own property professionals to assess real estate values; however, in certain circumstances where Insignia considers its expertise limited with respect to a particular investment, third party valuations may also be obtained. Property valuations and estimates of related future cash flows are by nature subjective and will vary from actual results.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. Insignia early adopted SFAS No. 144 as of January 1, 2001. SFAS No. 144 requires, in most cases, that gains/losses from dispositions of investment properties and all earnings from such properties be reported as "discontinued operations." SFAS No. 144 is silent with respect to treatment of gains or losses from sales of investment property held in a joint venture. The Company has concluded that, as a matter of policy, all gains and losses realized from sales of minority owned property in its real estate co-investment program constitute earnings from a continuing line of business. Therefore, operating activity related to that investment program will continue to be included in income (loss) from continuing operations. However, SFAS No. 144 requires that gains or losses from sales of consolidated properties, if material, be reported as discontinued operations. As a result, the Company's earnings from dispositions of consolidated properties would be excluded from reported income from continuing operations and included in discontinued operations.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Principles of Consolidation

Insignia's consolidated financial statements include the accounts of all majority-owned subsidiaries and all entities over which the Company exercises voting control. All significant intercompany balances and transactions have been eliminated. Entities in which the Company owns less than a majority interest and has substantial influence are recorded on the equity method of accounting (net of payments to certain employees in respect of equity grants or rights to proceeds).

In one instance, a minority-owned partnership (with additional promotional interests in profits depending on performance) is consolidated by virtue of general partner control. Since the limited partners' investment has been fully depreciated, the assets, liabilities and operations of the partnership are consolidated as if Insignia completely owned the asset, even though Insignia holds a minority economic interest.

Foreign Currency

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. The British pound and euro represent the only foreign currencies of material operations, which collectively generate from 15% to 25% of the Company's annual revenues. All currencies other than the British pound, euro and dollar have comprised less than 1% of annual revenues. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at the average exchange rates prevailing during the periods. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of stockholders' equity in other comprehensive income (loss), unless there is a sale or complete liquidation of the underlying foreign investment. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of operations in determining net income. For the nine months ended September 30, 2002, the Company's European operations have been translated into U.S. dollars at average exchange rates of \$1.49 to the pound and \$0.93 to the euro. For the nine months of 2001, European operations were translated to U.S. dollars at average exchange rates of \$1.44 and \$0.89 to the pound and euro, respectively. The assets and liabilities of the Company's European operations have been translated at exchange rates of \$1.56 to the pound and \$0.98 to the euro at September 30, 2002 and were translated at exchange rates of \$1.47 to the pound and \$0.91 to the euro at September 30, 2001.

8

5. Seasonality

Seasonal factors affecting the Company are disclosed in Item 2 of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Nature of Operations."

6. Discontinued Operations

In late December 2001, Insignia entered into a contract to sell its Realty One single-family home brokerage business and affiliated companies to Real Living, Inc., effective as of December 31, 2001. Real Living, Inc. is a privately held company formed by HER Realtors of Columbus, Ohio and Huff Realty of Cincinnati, Ohio. The sale closed on January 31, 2002. Proceeds from the sale potentially total \$33.0 million, including approximately \$29.0 million in cash received at closing (before extinguishment of \$5.5 million of Realty One debt) and additional payments aggregating as much as \$4.0 million. The additional

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

payments include the following: (i) a \$1.0 million reimbursement, collected in February 2002, for Realty One operating losses in January 2002; (ii) a potential earn-out of as much as \$2 million payable over the next two years (depending on the performance of the Realty One business); and (iii) a \$1 million operating lease payable over four years for the use of proprietary software developed by Insignia for an Internet-based residential brokerage model. Remaining amounts due to Insignia under the terms of the sale totaling \$2.8 million were included in other assets in the Company's consolidated balance sheet at September 30, 2002. Insignia discontinued Realty One's operations for financial reporting purposes and recognized a loss in connection with the sale of Realty One of \$17.6 million (net of applicable taxes of \$4.0 million) for the year ended December 31, 2001. During the three and nine months ended September 30, 2002, the Company reported net income of \$4.7 million and \$4.9 million, respectively, from discontinued operations. The third quarter income represents the elimination of a valuation allowance on a \$4.7 million tax benefit on the capital portion of the loss on sale of Realty One. This capital loss was fully reserved in 2001 because of uncertainty of its deductibility due to loss disallowance rules in the Treasury Regulations and insufficient income of the appropriate character. In the third quarter of 2002, it was determined that the loss would be fully deductible for tax purposes, resulting in the realization of a tax benefit for financial reporting purposes.

7. Change in Accounting Principle

In September 2002, the Company adopted the fair value expense recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, in accounting for employee stock options. The accounting change results in the expensing of the estimated fair value of employee stock options granted by the Company, applied on a prospective basis for all stock options granted on or after January 1, 2002. The Company previously followed Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. Under APB Opinion No. 25, no compensation expense is recognized when the exercise price of an employee stock option equals or exceeds the market price at issuance.

The Company issued 290,000 employee options during the first nine months of 2002. The fair value of these options has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) estimated stock price volatility of 40%; (ii) risk free interest rate of 2.5%; (iii) weighted average option life of 3.9 years; and (iv) a forfeiture rate of 3%. Under these assumptions, the aggregate value of the options totaled \$842,000, which is amortizable to expense over the vesting periods of five years. For the nine months of 2002, stock compensation expense recognized totaled \$116,000.

The Black-Scholes option valuation model was developed for use in estimating the fair value of transferable options and warrants with no vesting restrictions. This method requires the input of subjective assumptions including the expected stock price volatility and weighted average expected life of the options. The Company's employee stock options have characteristics significantly different from those of transferable options and changes in the subjective input assumptions can materially affect the value estimate. The Black-Scholes model is not the only reliable measure that could be used to determine the fair value of employee stock options. The Company believes that any and all valuations of employee stock options will necessarily be estimates. The ultimate impact of the accounting change on the Company's future earnings will depend on the number of options issued in the future, as to which the Company has no specific plan, and the estimated value of each option. Insignia does not expense the value of outstanding options issued before January 1, 2002. Information about values of those options and the estimated effect if expensed is disclosed in the notes to the consolidated financial statements included in the Company's 2001 Form 10-K.

8. Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. SFAS 141 replaces APB 16 and requires the use of the purchase method for all business combinations initiated after June 30, 2001. It also provides guidance on purchase accounting related to the recognition of intangible assets. Under SFAS 142, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to impairment tests on an annual basis, at a minimum, or whenever events or circumstances occur indicating goodwill might be impaired. Other acquired intangible assets continue to be amortized over their estimated useful lives.

The Company adopted SFAS No. 141 for all business combinations completed after June 30, 2001 and fully implemented SFAS No. 141 and SFAS No. 142 effective January 1, 2002. The Company has identified its reporting units and has determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those units as of January 1, 2002 for purposes of performing a required transitional goodwill impairment assessment within six months of adoption.

In the first quarter of 2002, the Company estimated goodwill impairment of between \$20.0 million and \$50.0 million based on internal analyses of current industry multiples and the carrying values of tangible and intangible assets of its reporting units. Such internal analyses demonstrated that the value of the Company's U.S. commercial operation significantly exceeded its carrying value and that goodwill of the small Asian operation was impaired. These analyses also indicated potential impairment in the Company's European operations and Insignia Douglas Elliman. The Company engaged Standard & Poor's to value the European and Insignia Douglas Elliman operations and those appraisals indicated no impairment in the Company's European operations and partial impairment in Insignia Douglas Elliman. The total impairment measured for Insignia Douglas Elliman and the Asian operation aggregated \$30.0 million before applicable taxes. As a result of this evaluation, the Company reported a \$20.6 million (net of tax benefit of \$9.4 million) goodwill impairment charge in earnings, as the cumulative effect of a change in accounting principle effective January 1, 2002, for the nine months ended September 30, 2002. The estimation of business values for measuring goodwill impairment is highly subjective and selections of different projected income levels and valuation multiples within observed ranges can yield different results.

Amortization of goodwill totaled approximately \$4.4 million and \$12.9 million, respectively, for the three and nine months ending September 30, 2001. Elimination of this amortization would have improved income by approximately \$3.1 million and \$9.0 million (net of applicable taxes), respectively, for those periods of 2001. The following table provides pro forma information to reflect the effect of adoption of SFAS No. 142 on earnings for the periods indicated.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

	2002	2001	2002
	(In thousands, except per share)		
Reported income (loss) from continuing operations	\$ 4,116	\$ (5,396)	\$ 6,8
Less: Preferred stock dividend	(800)	(250)	(1,3
Income (loss) from continuing operations available to common shareholders	3,316	(5,646)	5,5
Add:			
Goodwill amortization, net of tax benefit of \$1,333 and \$3,946 for the three and nine months ending September 30, 2001	--	3,063	
Adjusted income from continuing operations available to common shareholders	\$ 3,316	\$ (2,583)	\$ 5,5
Earnings per common share -- basic:			
Reported income (loss) from continuing operations	\$ 0.14	\$ (0.25)	\$ 0.
Add:			
Goodwill amortization, net of tax benefit of \$0.06 and \$0.18 for the three and nine months ending September 30, 2001	--	0.14	
Adjusted income (loss) from continuing operations	\$ 0.14	\$ (0.11)	\$ 0.
Earnings per common share -- assuming dilution:			
Reported income (loss) from continuing operations	\$ 0.14	\$ (0.25)	\$ 0.
Add:			
Goodwill amortization, net of tax benefit of \$0.06 and \$0.18 for the three and nine months ending September 30, 2001	--	0.14	
Adjusted income (loss) from continuing operations	\$ 0.14	\$ (0.11)	\$ 0.

Additional contingent purchase price of acquired businesses totaling \$12.7 million was recorded as additional goodwill during the first nine months of 2002. Such additional purchase price included: (i) Insignia Bourdais earnout payment of \$6.0 million (paid by issuance of 131,480 shares of Insignia common stock and cash of \$4.7 million); (ii) a \$4.0 million earnout with respect to the prior Boston acquisition by Insignia/ESG; (iii) a \$2.0 million earnout related to Insignia Douglas Elliman; and (iv) a \$728,000 earnout related to the Company's operations in the Netherlands. The table below reconciles the change in the carrying amount of goodwill, by operating segment, for the period from December 31, 2001 to September 30, 2002.

GOODWILL	COMMERCIAL	RESIDENTIAL	TOTAL
-----	-----	-----	-----
	(In thousands)		
BALANCE AS OF DECEMBER 31, 2001	\$ 228,967	\$ 59,386	\$ 288,353
Additional purchase consideration	10,728	2,000	12,728
Reclassifications from other intangibles	287	--	287

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Goodwill related to sale of business unit	--	(447)	(447)
Cumulative goodwill impairment	(3,201)	(26,822)	(30,023)
Foreign currency translation	10,379	--	10,379
	-----	-----	-----
BALANCE AS OF SEPTEMBER 30, 2002	\$ 247,160	\$ 34,117	\$ 281,277
	=====	=====	=====

11

The following tables present certain information on the Company's acquired intangible assets as of September 30, 2002 and December 31, 2001, respectively.

ACQUIRED INTANGIBLE ASSETS	WEIGHTED AVERAGE AMORTIZATION PERIOD	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET BALANCE
-----	-----	-----	-----	-----
			(In thousands)	
AS OF SEPTEMBER 30, 2002				
Property management contracts	7 years	\$ 72,799	\$ 59,380	\$ 13,419
Favorable premises leases	8 years	4,675	1,517	3,158
Other	3 years	4,699	3,091	1,608
		-----	-----	-----
Total		\$ 82,173	\$ 63,989	\$ 18,184
		=====	=====	=====
AS OF DECEMBER 31, 2001				
Property management contracts	7 years	\$ 70,926	\$ 54,049	\$ 16,877
Favorable premises leases	8 years	4,453	1,099	3,354
Other	3 years	3,228	1,997	1,231
		-----	-----	-----
Total		\$ 78,607	\$ 57,145	\$ 21,462
		=====	=====	=====

All intangible assets are being amortized over their estimated useful lives with no residual value. Intangibles included in "Other" consist of customer backlog, non-compete agreements, franchise agreements and trade names. The aggregate acquired intangible amortization expense for the nine months ended September 30, 2002 and 2001 totaled \$4.6 million and \$5.6 million, respectively. Intangible assets acquired in the Insignia Bourdais transaction contributed \$1.1 million of amortization expense (\$765,000 pertaining to customer backlog) during the first three quarters of 2002. This increase was offset by declines in amortization in 2002 attributed to property management contracts that fully amortized in 2001. Amortization of favorable premises leases, totaling approximately \$492,000 and \$319,000 for the nine month periods ending September 30, 2002 and 2001, respectively, is included in rental expense (included in real estate services expenses) in the Company's consolidated statements of operations.

The estimated acquired intangible amortization expense, including amounts reflected in rental expense, for the fiscal year ending December 31, 2002 and for the subsequent four fiscal years through December 31, 2006 approximates \$5.7 million, \$2.8 million, \$1.9 million, \$1.3 million and \$1.3 million,

respectively.

9. Real Estate Investments

The Company engages in real estate investment generally through: (i) investment in operating properties through co-investments with various clients or, in limited instances, by itself; (ii) investment in and development of commercial real estate on its on behalf and through co-investments; and (iii) minority ownership in and management of private investment funds, whose investments primarily consist of securitized real estate debt. As of September 30, 2002, the Company's real estate investments totaled \$135.7 million, consisting of the following: (i) \$27.8 million in minority-owned operating properties; (ii) \$82.8 million of carrying value of real estate attributed to three consolidated properties; (iii) \$10.6 million in minority owned development properties; (iv) \$1.7 million in a land parcel held for development; and (v) \$12.8 million in real estate debt investment funds. Insignia's equity investment in the consolidated properties totaled \$22.4 million at September 30, 2002.

Insignia maintains an incentive compensation program pursuant to which certain employees, including executive officers, participate in the profits generated by its real estate investments, through grants of either equity interests (at the time investments are made) or contractual rights to proceeds. Such grants generally consist of an aggregate of 50% of the cash proceeds to Insignia after Insignia has recovered its full investment plus a 10% per annum return thereon. In addition, upon disposition, the Company generally makes discretionary incentive payments of 5% to 10% to certain employees who directly contributed to the success of an investment. With respect to the private investment funds, employees are collectively entitled to share 55% to 60% of proceeds received by Insignia in respect of its promoted profits participation in those funds. Employees share only in promoted profits and are not entitled to any portion of earnings on the Company's actual investment. Gains on sales of real estate and equity earnings for the nine-month periods of 2002 and 2001 are recorded net of employee entitlements of \$5.0

12

million and \$695,000, respectively, pursuant to these grants. The Company's principal investment programs are more fully described below.

The Compensation Committee of the Company's Board of Directors, with the advice of third party professionals, has completed a review of policies relating to management participation in the Company's real estate investment program in the context of Insignia's entire incentive compensation program for senior management. The Committee has determined that all future promote interests granted to members of senior management shall have a co-investment requirement (such that any such individual has money at risk) and a netting requirement (such that losses on poor investments are netted with gains on successful investments). These requirements will apply to investments made by the Company on and after July 29, 2002. The mechanics by which this policy will be implemented will be determined based on the collective efforts of members of the Committee, its independent counsel and consultants and management. No grants to such members of senior management with respect to investments made after July 29, 2002 shall be made until such mechanics are in place.

Property Investment

The Company co-invests in the purchase of operating real estate assets including office, retail, industrial, apartment and hotel properties. As of September 30, 2002, Insignia held equity investments totaling \$27.8 million in 33 minority owned property assets. These properties consist of over 8.4 million

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

square feet of commercial property, 1,487 multi-family apartment units and 829 hotel rooms. The gross aggregate asset carrying value of these properties totaled approximately \$1 billion at September 30, 2002. The Company's minority ownership interests in co-investment property range from 1% to 30%. Gains realized from sales of real estate by minority owned ventures totaled \$2.0 million in the third quarter of 2002 and \$3.7 million for the first nine months of 2002, compared to \$161,000 and \$625,000 for the third quarter and nine months of 2001. Such amounts are included under the caption "equity earnings in real estate" in the Company's consolidated statements of operations.

Insignia also consolidates two operating properties, a wholly-owned retail property located in Norman, Oklahoma and a New York City apartment complex owned by a limited partnership in which the Company owns a 1% controlling general partner interest. With respect to the New York City apartment complex, Insignia is entitled to approximately 45% of all distributions after limited partners receive a return of all invested capital (aggregating approximately \$6.0 million). These properties comprise approximately 155,000 square feet of commercial space and 420 multi-family apartment units. At September 30, 2002, the carrying amounts of these consolidated real estate assets totaled \$45.8 million, and non-recourse real estate mortgage debt totaled \$46.7 million. In September 2002, a consolidated retail property was sold for a \$1.3 million gain. The gain is included under the caption "other income, net" in the Company's consolidated statements of operations.

The New York City apartment complex is owned by several multi-tiered partnerships, in which Insignia has several different interests. Since 1999, Insignia has held a 1% general partner interest in the limited partnership that owns the property and a 1% general partner interest in the second tier limited partnership that owns the 99% limited partner interest in the property-owning partnership. In the first quarter of 2002, Insignia's intent with respect to its ownership interests in the property changed from a passive role, in which its primary objective was to retain the property management assignment for the property, to an active role, in which it has commenced an effort to refinance all of the debt encumbering the property. Although Insignia's economic interest in the property is nominal (until the limited partners have received a return of all invested capital), the Company commenced consolidating this property in its financial statements as of January 1, 2002 because (i) the partnership agreement for the property-owning partnership grants the general partner complete authority over the management and affairs of the partnership, including any sale or refinancing of its sole asset without limited partner approval, and (ii) generally accepted accounting principles require consolidation on the basis of voting control (regardless of the level of equity ownership). In July 2002, Insignia invested \$1.2 million in the second tier limited partnership as a new limited partner pursuant to a \$1.5 million equity financing. The remaining \$300,000 was invested by existing limited partners in June 2002.

Development

In July 2002, a subsidiary of the Company acquired three contiguous parcels of property and related leasehold rights in St. Thomas, United States Virgin Islands, which comprise 32.3 acres of property, including 18 submerged acres with full water rights. The initial purchase price was approximately \$35.0 million, paid with \$18.5 million in cash and a portion of a \$20.0 million borrowing by the subsidiary under a \$40.0 million mortgage loan facility. At September 30, 2002, approximately \$3.5 million of the borrowing was held in cash and escrowed reserves. The property is currently undergoing predevelopment activities together with operating activities of an existing marina.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

The property and its debt are consolidated in the Company's consolidated financial statements. The loan facility is non-recourse to Insignia. Insignia's investment in the property totaled \$19.4 million at September 30, 2002.

In addition, Insignia has minority ownership in four office projects whose development is directed by the Company. Insignia also owns a parcel of land in Denver, located adjacent to one of the office developments, that is held for future development. This land parcel was subject to an impairment write-down in the third quarter of 2002 as described in Note 10. Insignia's ownership in the four office projects range from 25% to 33% and the operating status of each at September 30, 2002 was as follows:

- o Dallas office project -- 96% leased
- o Portland flex project -- 60% leased
- o Denver office project -- 41% leased
- o Portland downtown office project -- 1% leased

The Company's only obligations with respect to the office developments, beyond its investment, are partial construction financing guarantees totaling \$8.9 million. The Company's investment in development assets totaled \$31.7 million at September 30, 2002. Interest capitalized in connection with these developments totaled \$663,000 and \$427,000, respectively, for the nine-month periods of 2002 and 2001.

Private Investment Funds

At September 30, 2002, Insignia had equity investments of \$12.8 million in two private investment funds, Insignia Opportunity Trust ("IOT") and Insignia Opportunity Partners II ("IOP II") and had a commitment to invest an additional \$2.3 million in IOP II. The investment objectives of these funds are to invest primarily in real estate debt securities with a focus on below investment grade commercial mortgage-backed securities. The gross carrying value of assets owned and managed by the two funds was approximately \$140.0 million as of September 30, 2002.

IOT has completed its deployment of committed capital and IOP II has called \$28.5 million of its \$48.5 million of total capital commitments. Three executive officers of the Company have committed \$2.25 million to IOP II on the same basis as all other investors. Insignia holds ownership interests of approximately 13% in IOT and 10% in IOP II and is currently entitled to an additional profits participation of 10% in IOT and 5% in IOP II. Insignia's additional profits participation could increase to 30% in IOT and 50% in IOP II, depending on the performance of the funds. Insignia's earnings from its investments in IOT and IOP II was \$2.4 million and \$1.7 million (after employee incentive participation of \$1.1 million and \$675,000) for the nine months of 2002 and 2001, respectively, and are included in real estate services revenues in the accompanying consolidated statements of operations.

10. Real Estate Impairment

During the third quarter of 2002, the Company recorded impairment against its real estate investments of \$1.6 million on five property assets. Insignia re-evaluates each real estate investment on a quarterly basis, taking into account changes in market conditions and prospects. The impairment charge includes \$560,000 for the Denver land parcel held for future development (disclosed in Note 9 above) based on a third party appraisal and \$703,000 for a 15% owned office building, located in Boston, suffering from increased vacancies and lowered rental rates.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

11. Acquisitions

Groupe Bourdais

In late December 2001, Insignia completed the acquisition of Groupe Bourdais, one of France's premier commercial real estate services companies. Groupe Bourdais now operates under the Insignia Bourdais name. The Insignia Bourdais purchase price consists of total potential consideration of approximately \$49.0 million, including an initial payment of approximately \$21.4 million in cash and stock (402,645 common shares) and additional payments totaling up to approximately \$28.0 million over the three years ending December 31, 2004, depending on the performance of the Insignia Bourdais operation. The Company recorded contingent consideration of \$6.0 million to goodwill in 2002 on the basis of the performance of Insignia Bourdais for its fiscal year ended March 31, 2002. The additional consideration was paid by issuance of 131,480 shares of Insignia common stock and cash of \$4.7 million. The acquisition consisted substantially of specifically identified intangible assets and goodwill and has been allocated based upon estimates of value for such acquired intangibles. Identified intangible assets, which included customer backlog, property management contracts, a non-compete agreement, franchise agreements and a

14

favorable premises lease, have been valued based on third party appraisals. The results of Insignia Bourdais have been included in the Company's financial statements since January 1, 2002.

Other Information

The following table provides pro forma results of operations for the periods indicated, assuming consummation of the Groupe Bourdais acquisition as of January 1, 2001:

	THREE MONTHS ENDED SEPTEMBER 30 2001 -----	NINE MONTHS ENDED SEPTEMBER 30 2001 -----
	(In thousands, except per share data)	
Revenues	\$ 154,887 =====	\$ 521,938 =====
Loss from continuing operations	(4,254) =====	(4,833) =====
Net loss	(3,328) =====	(6,355) =====
Net loss per common share:		
-- Basic	\$ (0.16) =====	\$ (0.32) =====
-- Assuming dilution	\$ (0.16) =====	\$ (0.32) =====

Pro forma results of operations for Baker Commercial and Brooke International -- India, each acquired in 2001, are not provided because the impact of these acquisitions on the Company's results of operations was not

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

material.

12. Private Financing

In June 2002, Insignia executed agreements for \$50.0 million of new capital through a private investment by funds affiliated with Blackacre Capital Management, LLC ("Blackacre"). The investment consists of \$12.5 million in newly issued shares of Series B convertible preferred stock and a commitment to provide \$37.5 million of subordinated debt. The preferred stock carries an 8.5% annual dividend, payable quarterly at Insignia's option in cash or in kind, and is convertible into Insignia common stock at a price of \$15.40 per share, subject to adjustment. The preferred stock has a perpetual term, although Insignia may call the preferred stock, at stated value, after June 7, 2005. In February 2000, Blackacre purchased \$25.0 million of convertible preferred stock, which has now been exchanged for a Series A convertible preferred stock with an 8.5% annual dividend and a conversion price of \$14.00 per share.

The Blackacre credit facility, which is subordinate to Insignia's senior credit facility, bears interest at an annual rate of 11.25% to 12.25%, payable quarterly, depending on the amount borrowed. Insignia may borrow in as many as three tranches over the 18-month period ending in December 2003. The subordinated debt matures in June 2009. In July 2002, Insignia borrowed \$15.0 million under the credit facility. The proceeds were used to finance the purchase of the real estate development property described in Note 9.

15

13. Long Term Debt

	SEPTEMBER 30 2002	DECEMBER 31 2001
	-----	-----
	(In thousands)	
NOTES PAYABLE		
Senior revolving credit facility	\$ 117,000	\$ 149,000
Subordinated credit facility	15,000	--
Acquisition loan notes	17,502	20,972
	-----	-----
	149,502	169,972
	-----	-----
REAL ESTATE MORTGAGES	66,718	37,269
	-----	-----
TOTAL	\$ 216,220	\$ 207,241
	=====	=====

The acquisition loan notes are payable to sellers of the acquired UK businesses and are backed by restricted cash deposits in approximately the same amount. The loan notes have a semiannual redemption feature at the discretion of the note holder. The real estate mortgages are secured solely by the property assets owned by the respective consolidated subsidiaries. Maturities range from December 2002 to October 2023. At September 30, 2002, Insignia had over \$78.0 million of availability on its credit facilities under its covenants. In October 2002, Insignia paid down \$22.0 million on the senior revolving credit facility from existing cash balances, lowering its outstanding balance to \$95.0 million.

16

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

14. Earnings Per Share

The following table sets forth the computation of the numerator and denominator used to compute, basic and diluted earnings from continuing operations per common share for the periods indicated. The potential dilutive shares from the conversion of preferred stock and the exercise of options, warrants and restricted stock is not assumed for the 2001 periods because the inclusion of such shares would be antidilutive.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30
	2002	2001	
	(In thousands)		
NUMERATOR:			
Numerator for basic earnings per share:			
Income (loss) from continuing operations	\$ 4,116	\$ (5,396)	\$ 6,000
Preferred stock dividends	(800)	(250)	(1,000)
	-----	-----	-----
Income (loss) from continuing operations available to common stockholders	\$ 3,316	\$ (5,646)	\$ 5,000
Effect of dilutive securities:			
Preferred stock dividends	--	--	--
	-----	-----	-----
Numerator for diluted earnings per share -- income (loss) from continuing operations available to common stockholders after assumed conversions	\$ 3,316	\$ (5,646)	\$ 5,000
	=====	=====	=====
DENOMINATOR:			
Denominator for basic earnings per share -- weighted average common shares			
	23,198	22,214	23,000
Effect of dilutive securities:			
Stock options, warrants and unvested restricted stock	395	--	--
Convertible preferred stock	--	--	--
	-----	-----	-----
Denominator for diluted earnings per share -- weighted average common shares and assumed conversions	23,593	22,214	23,000
	=====	=====	=====

15. Comprehensive Income (Loss)

The following table presents a calculation of comprehensive income (loss) for the periods indicated.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001	2002	2001
	(In thousands)			

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Net income (loss)	\$	8,769	\$	(4,470)	\$	(8,834)	\$
Other comprehensive income (loss), net of taxes:							
Foreign currency translation adjustment		1,294		2,991		7,261	
Reclassification adjustment for realized gain		--		--		(50)	
Unrealized gains on securities		--		(56)		--	
Minimum pension liability		(18)		--		(79)	

Total other comprehensive income (loss)		1,276		2,935		7,132	

TOTAL COMPREHENSIVE INCOME (LOSS)	\$	10,045	\$	(1,535)	\$	(1,702)	\$
=====							

17

16. Industry Segment Data

Insignia's operating activities encompass two reportable segments that include (i) commercial real estate services including principal investment activities, and (ii) residential real estate services. The Company's reportable segments are business units that offer similar products and services and are managed separately because of the distinction between such services. The accounting policies of the reportable segments are the same as those used in the preparation of the consolidated financial statements.

The commercial segment provides services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development and re-development, consulting and other services. The commercial segment also includes the Company's principal real estate investment activities and fund management. Insignia's commercial segment is comprised of the operations of Insignia/ESG in the U.S., Insignia Richard Ellis in the U.K., Insignia Bourdais in France (which commenced operations in January 2002) and other businesses in continental Europe, Asia and Latin America. The residential segment provides services including apartment brokerage and leasing, rental brokerage, property management and mortgage brokerage services and consists of the New York based operations of Insignia Douglas Elliman and Insignia Residential Group. The Company's unallocated administrative expenses and corporate assets, consisting primarily of cash and property and equipment, are included in "Other" in the segment reporting. The Company's internet-based initiatives launched in 1999 were terminated in 2001. The operating impact of internet initiatives for the first nine months of 2001 was limited to \$8.9 million of write-downs on equity internet investments made predominantly in 1999 and 2000.

18

The following tables summarize financial information by industry segment for the periods indicated. This financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 2 of this Form 10-Q.

	COMMERCIAL	RESIDENTIAL		OTHER
	-----	-----		-----
THREE MONTHS ENDED -- SEPTEMBER 30, 2002			(In thousands)	

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

REVENUES:			
Real estate services	\$ 151,669	\$ 36,133	\$ --
Property operations	2,380	--	--
	-----	-----	-----
TOTAL REVENUES	154,049	36,133	--
	-----	-----	-----
OPERATING INCOME (LOSS)	10,354	2,518	(4,524)
OTHER INCOME AND EXPENSE:			
Interest income	450	6	390
Other income	1,290	--	5
Interest expense	(64)	(3)	(2,339)
Property interest expense	(670)	--	--
Equity earnings (loss) in real estate ventures	70	--	--
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ 11,364	\$ 2,521	\$ (6,402)
	=====	=====	=====
NINE MONTHS ENDED -- SEPTEMBER 30, 2002			
REVENUES:			
Real estate services	\$ 408,928	\$ 105,142	\$ --
Property operations	6,930	--	--
	-----	-----	-----
TOTAL REVENUES	415,858	105,142	--
	-----	-----	-----
OPERATING INCOME (LOSS)	18,546	7,742	(11,152)
OTHER INCOME AND EXPENSE:			
Interest income	1,635	9	1,286
Other income	1,256	--	52
Interest expense	(358)	(14)	(6,383)
Property interest expense	(1,621)	--	--
Equity earnings in real estate ventures	1,516	--	--
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ 20,974	\$ 7,737	\$ (16,197)
	=====	=====	=====
Total assets	\$ 703,680	\$ 63,164	\$ 65,662
Real estate investments	135,717	--	--

19

	COMMERCIAL	RESIDENTIAL	INTERNET INITIATIVES	OTH
	-----	-----	-----	-----
(In thousands)				
THREE MONTHS ENDED -- SEPTEMBER 30, 2001				
REVENUES:				
Real estate services	\$ 114,978	\$ 431,328	\$ --	\$ --

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Property operations	720	--	--	
	-----	-----	-----	-----
TOTAL REVENUES	115,698	31,328	--	
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	(3,700)	346	--	
OTHER INCOME AND EXPENSE:				
Losses from internet investments	--	--	(1,779)	
Interest and other income	432	4	--	
Interest expense	(150)	(11)	--	
Property interest expense	(305)	--	--	
Foreign currency transaction gains	--	--	--	
Equity earnings in real estate ventures	234	--	--	
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ (3,489)	\$ 339	\$ (1,779)	\$ (
	=====	=====	=====	=====
NINE MONTHS ENDED -- SEPTEMBER 30, 2001				
REVENUES:				
Real estate services	\$ 399,415	\$ 92,250	\$ --	\$
Property operations	3,189	--	--	
	-----	-----	-----	-----
TOTAL REVENUES	402,604	92,250	--	
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	10,814	583	--	
OTHER INCOME AND EXPENSE:				
Losses from internet investments	--	--	(8,870)	
Interest and other income	1,532	4	--	
Interest expense	(461)	(32)	--	
Property interest expense	(1,477)	--	--	
Foreign currency transaction gains	--	--	--	
Equity earnings in real estate ventures	1,288	--	--	
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ 11,696	\$ 555	\$ (8,870)	\$ (1
	=====	=====	=====	=====
Total assets	\$ 555,095	\$ 164,052	\$ 5,332	\$ 4
Real estate investments	70,390	--	--	

20

Certain geographic information is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001	2002	2001
	-----	-----	-----	-----
TOTAL REVENUES				
	-----	-----	-----	-----

(In thousands)

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

United States	\$ 141,800	\$ 119,438	\$ 397,007	\$ 410,404
United Kingdom	32,640	23,839	82,579	73,825
France	11,502	--	29,584	--
Other countries	4,240	3,749	11,830	10,625
	-----	-----	-----	-----
	\$ 190,182	\$ 147,026	\$ 521,000	494,854
	=====	=====	=====	=====

	SEPTEMBER 30	

LONG-LIVED ASSETS	2002	2001

	(In thousands)	
United States	\$ 347,465	\$ 360,529
United Kingdom	114,158	109,261
France	24,409	--
Other countries	6,570	8,628

	\$ 492,602	\$ 478,750
	=====	

Long-lived assets are comprised of property and equipment, real estate investments, goodwill and acquired intangibles. Long-lived assets in the United States include \$37.0 million pertaining to a development parcel in St. Thomas, United States Virgin Islands.

17. Loans to Officers

In March 2002, Insignia made a loan in the amount of \$1.5 million to its Chairman and Chief Executive Officer. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.2% at September 30, 2002. The loan is payable on or before March 5, 2005. The Company deducts quarterly interest payments due on the loan from certain bonuses payable to the Chairman. To the extent such bonuses are not paid, all accrued and unpaid interest is payable at maturity. The loan and any accrued interest thereon would be forgiven in limited circumstances, such as a significant transaction or change of control.

In June 2001, Insignia made a loan in the amount of \$1.5 million to its President. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.2% at September 30, 2002. The loan becomes due upon the earliest of (i) voluntary termination of the President's employment with Insignia, (ii) the termination of the President's employment with Insignia for cause or (iii) March 15, 2006. Insignia will forgive \$375,000 of the principal amount of the loan and accrued interest thereon on March 15 of the year following each of 2002, 2003, 2004 and 2005 to the extent that actual Net EBITDA equals or exceeds 75% of annual budgeted Net EBITDA for any such year, as approved by the Board of Directors. In addition, if aggregate actual Net EBITDA for fiscal 2002, 2003, 2004 and 2005 equals or exceeds aggregate annual budgeted EBITDA for such years, any outstanding principal amount of the loan and accrued interest thereon, will be forgiven as of March 15, 2006.

In May 2002, Insignia made a loan in the amount of \$270,000 to an Executive Vice President of the Company. The variable interest rate on the loan is the same as the average cost of funds borrowed by Insignia, which was approximately 5.2% at September 30, 2002. Interest on the loan is payable to Insignia in cash on June 30 and December 31 of each year; provided, however, that until December 31, 2004 all interest accrued and payable may, at the discretion of the employee (but subject to Insignia's right of offset as more fully described below), be added to the outstanding principal balance of the loan instead of paid in cash.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

The loan is repayable on the earlier of (i) June 30, 2005 or (ii) 30 days following a termination of the employee's employment with Insignia for any reason. Pursuant to its rights under the note, beginning on August 1, 2002, Insignia began withholding 50% of any distribution payable to the employee, in respect of the employee's equity interest in the Company's profits interest in Insignia Opportunity Partners, the operating partnership subsidiary of Insignia Opportunity Trust, to be applied as a payment of accrued interest and outstanding principal. In October 2002, the Company withheld \$6,995 from distributions payable to the employee pursuant to its rights under the note.

21

Pursuant to the Company's Supplemental Stock Purchase and Loan Program, Insignia has loans outstanding to seven employees, including three executive officers, of the Company. These loans were originally made in 1998 and 1999 for the purchase of 158,663 newly issued shares of Insignia's common stock at an average share price of approximately \$12.18. The loans require principal and interest payments, at a fixed rate of 7.5%, in 40 equal quarterly installments ending December 31, 2009. The notes are secured by the common shares and are non-recourse to the employee except to the extent of 25% of the outstanding amount. At September 30, 2002, the loans outstanding totaled \$1.2 million and are presented as a reduction of stockholders' equity in the Company's consolidated balance sheet.

18. Contingencies

Ordinary Course of Business Claims

Insignia and certain subsidiaries are defendants in lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a significant adverse effect on the financial condition, results of operations or cash flows of the Company. All contingencies including unasserted claims or assessments, which are probable and the amount of loss can be reasonably estimated, are accrued in accordance with SFAS No. 5, Accounting for Contingencies.

Indemnification

In 1998, the Company's former parent entered into a Merger Agreement with Apartment Investment and Management Company ("AIMCO"), and one of AIMCO's subsidiaries, pursuant to which the former parent was merged into AIMCO. Shortly before the merger, the former parent distributed the stock of Insignia to its shareholders in a spin-off transaction. As a requirement of the Merger Agreement, Insignia entered into an Indemnification Agreement with AIMCO. In the Indemnification Agreement, Insignia agreed generally to indemnify AIMCO against all losses exceeding \$9.1 million that result from: (i) breaches by the Company or former parent of representations, warranties or covenants in the Merger Agreement; (ii) actions taken by or on behalf of former parent prior to the merger; and (iii) the spin-off.

In December 2001, the Company entered into a stock purchase agreement with Real Living, Inc., the purchaser, that provided for the sale of 100% of the stock of Realty One and its affiliated companies. Such affiliated companies included First Ohio Mortgage Corporation, Inc., First Ohio Escrow Corporation, Inc. and Insignia Relocation Management, Inc. As a part of sale, the Company agreed generally to indemnify the purchaser against all losses up to the purchase price (subject to certain deductible amounts), resulting from the following: (i) breaches by the Company of any representations, warranties or covenants in the stock purchase agreement; (ii) pre-disposition obligations for goods, services, taxes or indebtedness except for those assumed by Real Living,

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Inc.; (iii) change of control payments made to employees of Realty One; and (iv) any third party losses arising or related to the period prior to the disposition. In addition, the Company provided an indemnification for losses incurred by Wells Fargo Home Mortgage, Inc. ("Wells Fargo") and/or the purchaser in respect of (i) mortgage loan files existing on the date of closing; (ii) fraud in the conduct of its home mortgage business; and (iii) the failure to follow standard industry practices in the home mortgage business. The aggregate loss for which the Company is potentially liable to Wells Fargo is limited to \$10 million and the aggregate of any claims made by the purchaser and Wells Fargo shall not exceed the purchase price.

As of October 30, 2002, the Company was not aware of any matters that would give rise to a material claim under any warranties and indemnities.

22

Environmental

Under various federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate certain hazardous or toxic substances or petroleum-product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from or at the site, including the presence of asbestos containing materials. Insurance for such matters may not be available.

The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. There can be no assurance that Insignia, or any assets owned or controlled by Insignia (as on-site property manager), currently are in compliance with all of such laws and regulations or that Insignia will not become subject to liabilities that arise in whole or in part out of any such laws, rules or regulations. The liability may be imposed even if the original actions were legal and Insignia did not know of, or was not responsible for, the presence of such hazardous or toxic substances. Insignia may also be solely responsible for the entire payment of any liability if it is subject to joint and several liability with other responsible parties who are unable to pay. Insignia may be subject to additional liability if it fails to disclose environmental issues to a buyer or lessee of property. Management is not currently aware of any environmental liabilities that are expected to have a material adverse effect upon the operations or financial condition of the Company.

23

19. Equity

During the nine month period ended September 30, 2002, the Company had the following changes in stockholders' equity:

- a) Net loss of \$8,834,000, including \$20,635,000 (net of tax benefit) with respect to the cumulative effect of a change in accounting

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

principle.

- b) Issuance of 125,000 shares, or \$12,500,000, of Series B convertible preferred stock (less \$175,000 of issuance costs) that carries an 8.5% annual dividend and is convertible into Insignia common stock at a price of \$15.40.
- c) Exchange of 250,000 shares, or \$25,000,000, of convertible preferred stock, originally issued in February 2000, for Series A convertible preferred stock that carries an 8.5% annual dividend and is convertible into Insignia common stock at a price of \$14.00 per share. This exchange with the existing holder did not change total stockholders' equity.
- d) Preferred stock dividends totaling \$1,032,000 paid in cash.
- e) Exercise of stock options to purchase 102,967 shares of Insignia common stock at exercise prices ranging from \$4.08 to \$11.59 per share.
- f) Sale of 78,809 shares of Insignia common stock, at an average price of approximately \$8.67, under the Company's Employee Stock Purchase Program.
- g) Issuance of 131,480 shares (valued at \$1.3 million) of Insignia common stock in connection with the Groupe Bourdais acquisition.
- h) Issuance of 85,645 shares of Insignia common stock (at issue date market values averaging approximately \$10.00 per share) for vested restricted stock awards. Accrued compensation expense relating to restricted stock totaled \$463,000 for the nine-month period of 2002.
- i) Payments of \$113,000 on notes receivable for common stock. In addition, the retired Chairman of the Company's U.K. subsidiary, Insignia Richard Ellis and a Vice Chairman of Insignia/ESG, Inc. assigned to the Company, for retirement, 47,786 shares of Insignia common stock with an average market value of \$11.35 per share. Such common shares were retired in satisfaction of common stock purchase notes receivable of \$542,000.
- j) Other comprehensive income of \$7,132,000, net of applicable taxes, for the nine months ended September 30, 2002, arising substantially from the translation of European net assets at higher exchange rates.
- k) Stock option expense of \$116,000 representing the estimated value of employee stock options issued during 2002, which is added to additional paid-in capital and charged to net income.

In July 2002, the Company authorized a stock repurchase program of up to \$5.0 million, subject to compliance with all covenants contained within the Company's existing debt agreements. As of October 31, 2002, Insignia had not initiated any stock repurchases under this authorization.

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

RESULTS OF OPERATIONS

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

Insignia monitors and evaluates its financial performance using two primary measures -- Net EBITDA and income from continuing operations. Net EBITDA is defined as income from continuing operations before depreciation, amortization, property dispositions and impairments, internet investment results and income taxes. Net EBITDA deducts all interest expense and includes Funds From Operations ("Real estate FFO") from real estate co-investments. Real estate FFO is defined as income or loss from real estate operations before depreciation, gains or losses on sales of property and provisions for impairment. Net EBITDA and Real Estate FFO are supplemental measures that are not defined by GAAP and Insignia's usage of these terms may differ from other companies' usage of the same or similar terms.

Insignia's 2002 third quarter was highlighted by very strong year-over-year performance in Europe, especially the United Kingdom which benefited from a strong investment market and robust demand for valuation services. Also, strength in the Company's New York residential sales and brokerage unit, Insignia Douglas Elliman, continued in the third quarter, although at a lessened pace from the first two quarters of 2002, which were unusually robust. The Company's U.S. commercial real estate services business, Insignia/ESG, continues to face soft markets, but benefited from continued expense containment measures and the stronger relative performance of its flagship New York operation.

For the third quarter of 2002, Net EBITDA totaled \$13.0 million, up significantly from \$3.5 million for the third quarter of 2001. Service revenues for the third quarter of 2002 totaled \$187.8 million, an increase from \$146.3 million for the same period in 2001. The increase in revenues reflects year-over year improvement in all virtually operating units and an \$11.5 million contribution from the Company's French business unit acquired in late December 2001. For the third quarter of 2002, the Company reported income from continuing operations of \$4.1 million (\$0.14 per diluted share), an improvement from a loss of \$5.4 million (\$0.25 per diluted share) in the third quarter of 2001. Net income for the third quarter of 2002 totaled \$8.8 million (\$0.34 per diluted share), compared to a net loss of \$4.5 million (\$0.21 per diluted share) for the same period of 2001. Earnings for the 2002 third quarter were aided by a \$4.7 million tax benefit in discontinued operations related to the January 2002 sale of Realty One. The capital loss resulting from the Realty One sale had been fully reserved due to uncertainty of the deductibility of the loss. In the third quarter of 2002, it was determined that the loss would be fully deductible, requiring the recognition of a tax benefit. Results for the third quarter of 2001 were adversely impacted by the effects of the September 11th terrorist attacks on New York and Washington as well as \$1.8 million of Internet losses. Goodwill amortization was discontinued effective January 1, 2002 as required by new accounting standards. The Company incurred \$4.4 million of such amortization expense in the third quarter of 2001.

For the first nine months of 2002, Net EBITDA totaled \$31.2 million, up 4% from \$30.1 million for the same period of 2001. Service revenues reached \$514.1 million, up 5% from \$491.7 million for the 2001 period. Income from continuing operations for the nine months of 2002 was \$6.9 million (\$0.23 per diluted share), an improvement from a loss of \$6.9 million (\$0.35 loss per diluted share) for the nine months of 2001. The 2001 loss included \$8.9 million of internet investment losses and \$12.9 million of goodwill amortization. Net losses for the nine months of 2002 and 2001 included the cumulative effect of the goodwill accounting change (2002) and the operations of the discontinued Realty One business (2001). As a result, the Company reported net losses of \$8.8 million (\$0.43 per diluted share) in 2002 versus \$8.4 million (\$0.42 per diluted share) in 2001.

Earnings per share for the nine months of 2002 is affected by a 9% increase in average diluted shares over 2001. Diluted shares increased by 1.9 million for the nine months of 2002 as a result of (i) an 800,000 share dilutive effect of options and warrants that were non-dilutive by virtue of reported losses in

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

2001, (ii) 500,000 shares issued to employees pursuant to stock option exercises and stock plan purchases and (iii) 534,000 shares issued in connection with the Insignia Bourdais acquisition.

The 2002 results continued to reflect caution by US corporate clients worldwide. They are particularly wary of making long-term commitments for office space due to the uncertainty in the economy and financial markets. As a consequence, the time needed to complete transactions has lengthened significantly. Compared with the accelerated pace of activity in the late 1990s and 2000, office leases and property investment sales -- including those in our real estate investment portfolio -- are now taking much longer to consummate. A slow office leasing environment affects Insignia/ESG, the domestic commercial services business, more than Insignia's other businesses.

25

The table below depicts the Company's operating results, in a format that highlights the above measures, and reconciles them to GAAP net income, for the three and nine months ended September 30, 2002 and 2001, respectively. Operating results for each period present all results related to the sold Realty One business in discontinued operations. This information has been derived from the Company's consolidated statements of operations for the periods then ended.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS END SEPTEMBER 30	
	2002	2001	2002	2001
	(In thousands)			
REAL ESTATE SERVICES REVENUES				
Commercial -- United States	\$ 103,287	\$ 87,390	\$ 284,935	\$ 314,848
Commercial -- International	48,382	27,588	123,993	84,848
Residential	36,133	31,328	105,142	92,848
Total real estate service revenues	187,802	146,306	514,070	491,848
COSTS AND EXPENSES				
Real estate services	169,435	140,116	471,009	452,848
Administrative	4,502	2,399	11,085	8,848
EBITDA -- REAL ESTATE SERVICES (1)	13,865	3,791	31,976	30,848
Real estate FFO (2)	683	1,807	3,095	4,848
Interest and other income	835	988	2,932	4,848
Interest expense	(2,406)	(3,091)	(6,755)	(9,848)
NET EBITDA (1)	12,977	3,495	31,248	30,848
Gains on sales of real estate	3,263	161	5,006	
Real estate impairment	(1,577)	--	(1,699)	
Depreciation -- property and equipment	(4,541)	(3,954)	(13,082)	(11,848)
Amortization of intangibles	(1,030)	(5,829)	(4,139)	(18,848)
Real estate depreciation (3)	(1,609)	(1,821)	(4,820)	(4,848)
INCOME (LOSS) FROM REAL ESTATE OPERATIONS	7,483	(7,948)	12,514	(3,848)
Losses from internet investments	--	(1,779)	--	(8,848)

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	7,483	(9,727)	12,514	(12)
Income tax (expense) benefit	(3,367)	4,331	(5,631)	5
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS	4,116	(5,396)	6,883	(6)
Discontinued operations, net of taxes:				
Operating income (loss)	--	926	--	(1)
Adjustment to loss on disposal	4,653	--	4,918	
	-----	-----	-----	-----
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	8,769	(4,470)	11,801	(8)
Cumulative effect of a change in accounting principle, net of \$9.4 million tax benefit	--	--	(20,635)	
	-----	-----	-----	-----
NET INCOME (LOSS)	8,769	(4,470)	(8,834)	(8)
Preferred stock dividends	(800)	(250)	(1,373)	
	-----	-----	-----	-----
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 7,969	\$ (4,720)	\$ (10,207)	\$ (9)
	-----	-----	-----	-----

(1) Neither EBITDA nor Net EBITDA, as disclosed above, should be construed to represent cash provided by operations determined pursuant to GAAP. These measures are not defined by GAAP and Insignia's usage of these terms may differ from other companies' usage of the same or similar terms. As compared to net income, the

26

EBITDA and Net EBITDA measures effectively eliminate the impact of non-cash charges for depreciation, amortization of intangible assets and other charges. Management believes that the presentation of these supplemental measures enhance a reader's understanding of the Company's operating performance as they provide a measure of generated cash.

(2) Real estate FFO is defined as income or loss from real estate operations before depreciation, gains or losses on sales of property and provisions for impairment. This measure is not defined by GAAP and Insignia's usage of this term may differ from other companies' usage of the same or similar terms. Management uses this supplemental measure in the evaluation of principal real estate investment activities and believes that it provides a measure of generated cash flows for the Company's real estate operations.

(3) Real estate depreciation represents the depreciation attributed to the three consolidated real estate properties as well as the portion of depreciation expense of equity real estate investees attributed to Insignia's ownership.

Commercial Real Estate Services

Insignia's commercial real estate service operations include Insignia/ESG

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

in the United States, Insignia Richard Ellis in the United Kingdom, Insignia Bourdais in France and other subsidiaries in Germany, Italy, Belgium, the Netherlands, Spain, Asia and Latin America. Commercial real estate services revenues of \$151.7 million for the third quarter of 2002 reflect a 32% improvement from \$115.0 million for the same period of 2001. Commercial EBITDA of \$14.7 million in 2002 significantly exceeded the \$4.1 million for the third quarter of 2001. For the nine months of 2002, commercial revenues were up 2% to \$408.9 million. Insignia Bourdais contributed \$29.6 million to revenues in 2002. EBITDA of \$32.0 million for the nine months of 2002 reflects a decline from 2001 EBITDA of \$33.9 million.

United States

The Company's U.S. commercial services unit, Insignia/ESG, experienced weak leasing markets nationwide. U.S. revenues and EBITDA totaled \$103.3 million and \$7.5 million, respectively, for the third quarter of 2002. While revenues were up 18% and EBITDA was up 156% over the third quarter of 2001, performance was low by historical third quarter standards. The performance of Insignia/ESG for the third quarter of 2002 does reflect improvement from prior quarters in 2002, although the general economic uncertainty and sluggish pace of leasing activity continues to hamper performance. U.S. revenues totaled \$284.9 million for the nine months of 2002, down 10% from the same period of 2001, and EBITDA totaled \$17.6 million, down 35% from \$27.2 million in 2001. Nearly half of the decline was derived from the development business, which has not sold an asset in 2002. Development income totaled \$4.6 million for the nine months of 2001. The remainder of the 2002 decline is attributed to lower leasing volume. The revenue decline was partially mitigated by discipline in controlling non-essential expenses, which decreased by over \$8.0 million from 2001 levels. Conversely, the U.S. EBITDA margin declined in 2002 due to uncontrollable expenditures, including, predominantly, higher occupancy costs and bad debts. During the nine months of 2002, occupancy costs increased by approximately \$3.0 million over 2001 levels as a result of new leases or renewals at higher rent levels in several US markets, most notably Boston and the Company's headquarters at 200 Park Avenue in New York City.

Europe

European operations continue to exhibit strength in difficult times, fueled by investment activity and valuation services in the UK and positive contributions from Insignia Bourdais in France (which was acquired at the end of 2001). European EBITDA totaled \$8.2 million for the third quarter of 2002, up from \$2.4 million in the third quarter of 2001. European revenues were \$46.4 million for the third quarter of 2002, up 75% from \$26.5 million in 2001. The 2002 third quarter included Insignia Bourdais revenues of \$11.5 million and EBITDA of \$2.3 million. Other European operations produced EBITDA loss of \$900,000 for the 2002 third quarter. For the nine months of 2002, European EBITDA was \$17.3 million, up from \$9.5 million in the same period in 2001. European revenues of \$119.3 million for the nine months of 2002 reflect a 46% increase over \$81.9 million in 2001. The strength of European operations in the nine months of 2002 is attributable to the Insignia Bourdais acquisition and improved performance in the UK. Insignia Bourdais in France contributed revenues of \$29.6 million and EBITDA of \$4.8 million during the nine months of 2002. The European results reflect a substantial reduction in leasing activity in markets other than Paris.

Insignia's European operating results in 2002 have been translated into U.S. dollars at average exchange rates of \$1.49 to the pound and \$0.93 to the euro. In 2001, European operating results were translated into U.S. dollars at

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

average exchange rates of \$1.44 to the pound and \$0.89 to the euro. The change in currency translation rates accounts for approximately \$500,000 of the improved European performance in 2002.

Asia and Latin America

The Company's operations in Asia and Latin America launched in 2001 continue to build their service platforms, although performance remains constrained by very weak commercial real estate markets in Asia. Latin American performance improved aided by the completion of one of the largest office leases ever in Mexico in the third quarter of 2002. These operations incurred and EBITDA loss of \$1 million for the third quarter of 2002 on \$2.0 million in revenues. The EBITDA loss was \$2.8 million for the first nine months of 2002 on \$4.7 million in revenues. The poor 2002 performance compares to EBITDA losses of approximately \$1.2 million and \$2.8 million, respectively, for the quarter and nine months of 2001. The losses are, for the most part, attributable to Insignia's building of a competitive presence in Tokyo, Hong Kong and Shanghai.

Residential Real Estate Services

The Company's residential real estate services consist of co-op and apartment brokerage through Insignia Douglas Elliman and property management services through Insignia Residential Group. These residential operations continue to benefit from a strong New York co-op and condo sales market. In the third quarter of 2002, residential service revenues totaled \$36.1 million, an increase of 15% over \$31.3 million for the same quarter of 2001, and residential EBITDA increased materially to \$3.6 million, a 71% increase over \$2.1 million for the third quarter 2001. Insignia Douglas Elliman generated service revenues and EBITDA of \$29.5 million and \$3.5 million, respectively, during the 2002 third quarter, representing increases of 18% and 77% over the 2001 period. Insignia Douglas Elliman's gross transaction volume totalled \$775 million for the third quarter of 2002, reflecting an 18% increase from the same period in 2001, while the number of units sold increased 24% to 991. The average sales price during the 2002 third quarter decreased by 5% from 2001 to approximately \$782,000, reflecting a higher proportion of sales activity at the lower end of the pricing spectrum.

For the first nine months of 2002, revenues from residential operations climbed 14% to \$105.1 million, while EBITDA improved 94%, or \$5.3 million, to \$11.0 million. The New York residential sales market has demonstrated strength on a number of levels since December 2001. This improvement reflects benefits derived from pent-up demand from the late 2001 period when new contract signings came to a virtual standstill as well as shifts in household investment towards real estate. Demand is particularly robust for apartments selling for less than \$1.0 million and remains active for apartments up to \$3.0 million; however, there is notably less demand for apartments priced at higher levels as the more affluent continue to defer purchase decisions. Insignia Douglas Elliman's performance in 2002 has out-paced the performance of the New York City market as a whole, indicating an ability to increase its market share. For the first nine months of 2002, Insignia Douglas Elliman generated revenues and EBITDA of \$85.2 million and \$10.9 million, respectively, representing increases of 17% and 122% over the 2001 period. Insignia Douglas Elliman's 2002 year-to-date gross transaction volume totalled \$2.2 billion, representing a 19% increase over 2001 while the number of units sold increased 27% to 2,843. The average sales price for the nine months of 2002 decreased 6% from 2001 to approximately \$778,000.

Residential EBITDA for the nine months of 2002 was reduced by a second quarter \$1.0 million charge for the estimated unrecoverable costs of vacating and subleasing excess office space previously used by Insignia Residential Group as well as a \$494,000 third quarter charge attributed to estimated litigation settlements at Insignia Residential Group. The lease charge was determined based on assumptions regarding the probable sublease of the excess space, including

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

passage of an estimated twelve months prior to receiving rents from a subtenant. Aside from these charges, Insignia Residential Group has benefited from operating efficiencies achieved from the termination of unprofitable management assignments. As evidence, Insignia Residential Group generated EBITDA of \$1.5 million before these charges during the nine months of 2002. This result would have represented an increase of 88% over \$775,000 for the nine months of 2001.

28

Administrative

Corporate administrative expenses increased 88% to \$4.5 million during the third quarter of 2002 and 26% to \$11.1 million for the nine months of 2002. The majority of the increase stems from increased professional fees. The costs primarily related to external advice to the compensation committee, which is evaluating executive compensation programs, external advice to the newly formed corporate governance committee and external counsel advice in meeting the requirements of the Sarbanes-Oxley Act of 2002.

Other Items Included in the Determination of Net EBITDA

Interest and other income declined 16% to \$835,000 during the 2002 third quarter and 29% to \$2.9 million for the nine months of 2002, compared to the same periods of 2001. Lower interest rates and average cash balances account for the change.

Corporate interest expense decreased 22% to \$2.4 million for the third quarter of 2002 and 30% to \$6.8 million for the nine months of 2002. The Company continues to benefit from lower interest rates on its LIBOR based borrowings and reduced borrowing levels as a result of a \$32 million pay-down of debt during the first quarter of 2002. The average interest rate on the outstanding balance on the senior revolving credit facility was approximately 4.5% for the first nine months of 2002, compared to an average of over 7% for the same period of 2001.

Real estate FFO from the Company's property investment portfolio declined 62% to \$683,000 for the third quarter of 2002 and 36% to \$3.1 million for the nine months of 2002. The declines in 2002 are primarily attributable to lost earnings from properties sold over the past year, including, most significantly, the Fresh Meadows apartment complex in Queens, New York -- which contributed FFO in 2001 of \$418,000 for the third quarter and \$792,000 for the nine months -- and losses from two development assets that are in the initial stages of their operations and have not yet achieved profitability.

Other Items Included in the Determination of Income from Continuing Operations

Gains realized from sales of real estate in 2002 totaled \$3.3 million for the third quarter and \$5.0 million for the nine months. For the comparable periods of 2001, gains realized from property sales totaled \$161,000 during the third quarter and \$625,000 for the nine-month period. During the 2002 third quarter, the Company produced gains of \$2.0 million from the sale of three co-invested property assets and a further \$1.3 million from the sale of a consolidated retail property. Gains for the nine months of 2002 included the first quarter sale of a 10% owned office/retail property located in California. These gains are recorded net of amounts payable to certain employees totaling \$5.0 million for the nine months of 2002 and \$695,000 for the same period of 2001. Comparisons of this type of income do not reflect performance of the investments for the comparative period, but rather the volume of asset sales in the period and the cumulative value change of the investments sold.

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

During the third quarter of 2002, the Company recorded impairment against its real estate investments of \$1.6 million on five property assets. Insignia re-evaluates each real estate investment on a quarterly basis, taking into account changes in market conditions and prospects. The impairment charge includes \$560,000 for a land parcel, located in Denver and held for future development, based on a third party appraisal and \$703,000 for a 15% owned office building, located in Boston, suffering from increased vacancies and lowered rental rates.

Depreciation of property and equipment increased 15% to \$4.5 million for the third quarter of 2002, from \$4.0 million for the comparable period of 2001. For the nine months of 2002, depreciation increased 16% to \$13.1 million (over \$11.2 million in 2001). The increases are the result of capital spending of over \$15 million over the past year primarily for leasehold improvements (in connection with addition or relocation of offices) and software.

Amortization of intangibles declined from 2001 by 82%, or \$4.8 million, to \$1.0 million during the 2002 third quarter and 78%, or \$14.3 million, to \$4.1 million for the nine months of 2002. The adoption of new accounting standards requiring elimination of amortization of goodwill, effective January 1, 2002, was responsible for \$4.4 million of the decrease in the third quarter and \$12.9 million of the decrease for the nine months. The remainder of the decrease was attributed to certain property management contracts that fully amortized in 2001 and early 2002. Amortization expense in 2002 pertains primarily to acquired property management contracts, non-compete agreements and the customer backlog of Insignia Bourdais.

29

In 2001, the Company incurred pre-tax internet losses of \$1.8 million during the third quarter and \$8.9 million for the nine-month period. The losses represented impairment write-offs of certain third-party internet-based investments made predominantly in 1999 and 2000. Insignia had no internet-related activity during the quarter or nine months of 2002. At September 30, 2002, the Company's only remaining internet-related investment was a \$900,000 investment in an e-commerce venture fund.

Income tax expense on continuing operations for the three and nine months of 2002 totaled \$3.4 million and \$5.6 million, respectively, as determined based on a consolidated effective tax rate estimated at 45%. Conversely, the same periods of 2001 included income tax benefits of \$4.3 million and \$5.1 million, respectively, due to losses for those periods.

Other Factors in the Determination of Net Income

Net income in 2002 has been enhanced by income from discontinued operations of \$4.7 million for the third quarter and \$4.9 million for the nine months. This income included \$265,000 recognized in the first quarter of 2002 pertaining to post closing adjustments in conjunction with the Realty One sale and a \$4.7 million tax benefit in the third quarter attributed to the elimination of a valuation allowance on the capital portion of the loss, which had been fully reserved in 2001 due to uncertainty of deductibility. Net income for 2001 included \$926,000 of operating income for the third quarter and an operating loss of \$1.5 million for the nine months related to Realty One, which is reported in discontinued operations. Conversely, net income for the first nine months of 2002 was adversely affected by a goodwill impairment charge of \$20.6 million (net of tax of \$9.4 million) reported as the cumulative effect of a change in accounting principle.

With respect to the goodwill accounting change, the Company conducted

Edgar Filing: INSIGNIA FINANCIAL GROUP INC /DE/ - Form 10-Q

internal analyses in early 2002 that indicated the U.S. commercial operation was not impaired and that goodwill of the Asia operation was in fact impaired. The Company also determined that there was a possibility of impairment in the European operations and in Insignia Douglas Elliman and engaged third-party valuation consultants to appraise these businesses. Their evaluations indi