

JONES LANG LASALLE INC  
Form 10-Q  
November 08, 2006

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**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, 2006

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13145

**Jones Lang LaSalle Incorporated**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**36-4150422**

(I.R.S. Employer Identification No.)

**200 East Randolph Drive, Chicago, IL**

(Address of principal executive offices)

**60601**

(Zip Code)

Registrant's telephone number, including area code: **312/782-5800**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock (par value \$0.01) as of the close of business on October 27, 2006 was 36,517,641, which includes 4,349,651 shares held by a subsidiary of the registrant.

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**Table of Contents****Part Financial Information****I**

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Earnings for the three and nine months ended September 30, 2006 and 2005</u>	4
	<u>Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2006</u>	5
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4.	<u>Controls and Procedures</u>	37

**Part Other Information****II**

Item 1.	<u>Legal Proceedings</u>	38
Item 2.	<u>Share Repurchases</u>	38
Item 5.	<u>Other Information</u>	39
Item 6.	<u>Exhibits</u>	42

Table of Contents**Part I**  
**Item 1.****Financial Information**  
**Financial Statements****JONES LANG LASALLE INCORPORATED****Consolidated Balance Sheets****September 30, 2006 and December 31, 2005**

(\$ in thousands, except share data)

	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,060	28,658
Trade receivables, net of allowances of \$9,230 and \$5,551	460,862	415,087
Notes and other receivables	31,217	15,231
Prepaid expenses	27,535	22,442
Deferred tax assets	36,374	35,816
Other	16,860	13,864
Total current assets	606,908	531,098
Property and equipment, net of accumulated depreciation of \$170,287 and \$158,064	105,992	82,186
Goodwill, with indefinite useful lives, net of accumulated amortization of \$38,118 and \$37,450	512,778	335,731
Identified intangibles, with finite useful lives, net of accumulated amortization of \$54,893 and \$45,360	39,837	4,391
Investments in real estate ventures	127,487	88,710
Long-term receivables	23,006	20,931
Deferred tax assets	59,547	59,262
Other	27,540	22,460
	<b>\$ 1,503,095</b>	<b>1,144,769</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 157,705	155,741
Accrued compensation	322,153	300,847
Short-term borrowings	19,220	18,011
Deferred tax liabilities	1,601	400
Deferred income	26,921	20,823
Other	38,140	26,813
Total current liabilities	565,740	522,635
Noncurrent liabilities:		
Credit facilities	158,029	26,697
Deferred tax liabilities	2,273	3,079
Deferred compensation	21,553	15,988
Minimum pension liability	17,621	16,753
Deferred business acquisition obligations	33,539	—
Other	30,774	23,614

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Total liabilities	829,529	608,766
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value per share, 100,000,000 shares authorized; 36,486,588 and 35,199,744 shares issued and outstanding	365	352
Additional paid-in capital	655,290	606,000
Retained earnings	186,979	100,142
Stock held by subsidiary	(162,480)	(132,791)
Stock held in trust	(1,405)	(808)
Accumulated other comprehensive loss	(5,183)	(36,892)
Total stockholders' equity	673,566	536,003
	<b>\$ 1,503,095</b>	<b>1,144,769</b>

See accompanying notes to consolidated financial statements.

Table of Contents**JONES LANG LASALLE INCORPORATED****Consolidated Statements of Earnings****For the Three and Nine Months Ended September 30, 2006 and 2005**

(\$ in thousands, except share data) (unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenue	\$ 462,317	326,384	1,309,204	891,648
Operating expenses:				
Compensation and benefits	313,711	211,035	863,326	592,800
Operating, administrative and other	99,796	79,702	284,353	227,184
Depreciation and amortization	11,523	8,322	31,877	24,967
Restructuring charges (credits)	—	721	(670)	471
Operating expenses	425,030	299,780	1,178,886	845,422
Operating income	37,287	26,604	130,318	46,226
Interest expense, net of interest income	4,112	1,333	11,799	3,019
Equity in earnings from real estate ventures	773	2,366	9,422	6,104
Income before provision for income taxes	33,948	27,637	127,941	49,311
Provision for income taxes	9,251	7,020	33,648	12,525
Net income before cumulative effect of change in accounting principle	24,697	20,617	94,293	36,786
Cumulative effect of change in accounting principle, net of tax	—	—	1,180	—
<b>Net income</b>	<b>\$ 24,697</b>	<b>20,617</b>	<b>95,473</b>	<b>36,786</b>
<b>Net income available to common shareholders (Note 7)</b>	<b>\$ 24,697</b>	<b>20,231</b>	<b>94,951</b>	<b>36,400</b>
Basic earnings per common share	\$ 0.77	0.64	2.99	1.16
Basic weighted average shares outstanding	32,106,994	31,576,006	31,771,247	31,296,057
<b>Diluted earnings per common share</b>	<b>\$ 0.73</b>	<b>0.61</b>	<b>2.85</b>	<b>1.10</b>
Diluted weighted average shares outstanding	33,751,054	33,425,883	33,319,566	32,990,066

See accompanying notes to consolidated financial statements.



Table of Contents

**JONES LANG LASALLE INCORPORATED**  
**Consolidated Statement of Stockholders' Equity**  
**For the Nine Months Ended September 30, 2006**  
(\$ in thousands, except share data) (unaudited)

	Common Shares (1)	Stock Amount	Additional Paid-In Capital	Retained Earnings	Stock Held by Subsidiary	Stock Held in Trust	Accu- mulated Other Compre- hensive Income (Loss)	Total
Balances at December 31, 2005	35,199,744	\$ 352	606,000	100,142	(132,791)	(808)	(36,892)	\$ 536,003
Net income	—	—	—	95,473	—	—	—	95,473
Shares issued under stock compensation programs	1,286,844	13	901	—	—	—	—	914
Tax benefits of vestings and exercises	—	—	27,375	—	—	—	—	27,375
Amortization of stock compensation	—	—	21,014	—	—	—	—	21,014
Shares acquired by subsidiary (1)	—	—	—	—	(29,689)	—	—	(29,689)
Stock held in trust	—	—	—	—	—	(597)	—	(597)
Dividends declared	—	—	—	(8,636)	—	—	—	(8,636)
Foreign currency translation adjustments	—	—	—	—	—	—	29,804	29,804
Unrealized holding gain on investments	—	—	—	—	—	—	1,905	1,905
<b>Balances at September 30, 2006</b>	<b>36,486,588</b>	<b>\$ 365</b>	<b>655,290</b>	<b>186,979</b>	<b>(162,480)</b>	<b>(1,405)</b>	<b>(5,183)</b>	<b>\$ 673,566</b>

(1) Shares repurchased under our share repurchase programs are not cancelled, but are held by one of our subsidiaries. The 4,349,651 shares we have repurchased through September 30, 2006 are included in the 36,486,588 shares total of our common stock account, but are deducted from our share count for purposes of calculating earnings per share.

See accompanying notes to consolidated financial statements.



Table of Contents**JONES LANG LASALLE INCORPORATED****Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2006 and 2005**

(\$ in thousands) (unaudited)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities:		
Cash flows from earnings:		
Net income	\$ 95,473	36,786
Reconciliation of net income to net cash provided by earnings:		
Cumulative effect of change in accounting principle, net of tax	(1,180)	—
Depreciation and amortization	31,877	24,967
Equity in earnings from real estate ventures	(9,422)	(6,104)
Operating distributions from real estate ventures	15,243	5,568
Provision for loss on receivables and other assets	4,916	2,194
Amortization of deferred compensation	26,931	15,332
Amortization of debt issuance costs	519	543
Net cash provided by earnings	164,357	79,286
Cash flows from changes in working capital:		
Receivables	(68,752)	38,689
Prepaid expenses and other assets	(10,878)	(2,025)
Deferred tax assets, net	(448)	4,170
Excess tax benefits from share-based payment arrangements	(24,475)	—
Accounts payable, accrued liabilities and accrued compensation	94,380	(108,874)
Net cash flows from changes in working capital	(10,173)	(68,040)
<b>Net cash provided by operating activities</b>	<b>154,184</b>	<b>11,246</b>
Cash flows from investing activities:		
Net capital additions - property and equipment	(44,126)	(21,908)
Business acquisitions	(182,663)	(4,885)
Capital contributions and advances to real estate ventures	(58,733)	(19,850)
Distributions, repayments of advances and sale of investments	16,551	7,572
<b>Net cash used in investing activities</b>	<b>(268,971)</b>	<b>(39,071)</b>
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	715,277	444,957
Repayments of borrowings under credit facilities	(584,454)	(407,187)
Shares repurchased for payment of employee taxes on stock awards	(17,288)	(9,481)
Shares repurchased under share repurchase program	(29,689)	(43,304)
Excess tax benefits from share-based payment arrangements	24,475	—
Common stock issued under stock option plan and stock purchase programs	20,504	38,726
Payment of dividends	(8,636)	—

<b>Net cash provided by financing activities</b>	<b>120,189</b>	<b>23,711</b>
Net increase (decrease) in cash and cash equivalents	5,402	(4,114)
Cash and cash equivalents, January 1	28,658	30,143
<b>Cash and cash equivalents, September 30</b>	<b>\$ 34,060</b>	<b>26,029</b>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 12,751	3,218
Income taxes, net of refunds	27,562	14,447
Non-cash financing activities:		
Cash dividends declared but not paid	—	9,259
Deferred business acquisition obligations	32,069	—

See accompanying notes to consolidated financial statements.

Table of Contents

**JONES LANG LASALLE INCORPORATED**

**Notes to Consolidated Financial Statements (Unaudited)**

Readers of this quarterly report should refer to the audited financial statements of Jones Lang LaSalle Incorporated (“Jones Lang LaSalle,” which may also be referred to as “the Company” or as “the Firm,” “we,” “us” or “our”) for the year ended December 31, 2005, which are included in Jones Lang LaSalle’s 2005 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (“SEC”) and also available on our website ([www.joneslanglasalle.com](http://www.joneslanglasalle.com)), since we have omitted from this report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to the “Summary of Critical Accounting Policies and Estimates” section within Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained herein, for further discussion of our accounting policies and estimates.

**(1) Summary of Significant Accounting Policies**

**Interim Information**

Our consolidated financial statements as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 are unaudited; however, in the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements for these interim periods have been included.

Historically, other than for our Investment Management segment, our revenue, operating income and net earnings in each of the first three calendar quarters have been substantially lower than in the fourth quarter. This seasonality is due to a calendar-year-end focus on the completion of real estate transactions, which is consistent with the real estate industry generally. Our Investment Management segment earns performance fees on clients’ returns on their real estate investments. Such performance fees are generally earned when assets are sold, the timing of which is geared towards the benefit of our clients and is therefore inherently unpredictable. Non-variable operating expenses, which are treated as expenses when they are incurred during the year, are relatively constant on a quarterly basis. As such, the results for the periods ended September 30, 2006 and 2005 are not indicative of the results to be obtained for the full fiscal year.

**Principles of Consolidation**

Our financial statements include the accounts of Jones Lang LaSalle and its majority-owned-and-controlled subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Investments in real estate ventures over which we exercise significant influence, but not control, are accounted for by the equity method. Investments in real estate ventures over which we are not able to exercise significant influence are accounted for under the cost method.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current presentation.

**Revenue Recognition**

The SEC’s Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (“SAB 101”), as amended by SAB 104, provides guidance on the application of United States generally accepted accounting principles (“U.S. GAAP”) to selected revenue recognition issues. Additionally, EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”), provides guidance on the application of U.S. GAAP to revenue transactions with

multiple deliverables.

We categorize our revenues as advisory and management fees, transaction commissions, project and development management and construction management fees. We recognize advisory and management fees related to property management services, valuation services, corporate property services, strategic consulting and money management as income in the period in which we perform the related services. We recognize transaction commissions related to agency leasing services, capital markets services and tenant representation services as income when we provide the related service unless future contingencies exist. If future contingencies exist, we defer recognition of this revenue until the respective contingencies have been satisfied. Project and development management and construction management fees are recognized applying the "percentage of completion" method of accounting. We use the efforts expended method to determine the extent of progress towards completion for project and development management fees and costs incurred to total estimated costs for construction management fees. Construction management fees, which are gross construction services revenues net of subcontract costs, were \$2.5 million and \$9.0 million for the three and nine months ended September 30, 2006, respectively. Gross construction services revenues totaled \$36.9 million and \$103.7 million, and subcontract costs totaled \$34.4 million and \$94.7 million for the same three and nine month periods.

7

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Table of Contents

Certain contractual arrangements for services provide for the delivery of multiple services. We evaluate revenue recognition for each service to be rendered under these arrangements using criteria set forth in EITF 00-21. For services that meet the separability criteria, revenue is recognized separately. For services that do not meet those criteria, revenue is recognized on a combined basis.

We follow the guidance of EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," when accounting for reimbursements received. Accordingly, we have recorded these reimbursements as revenues in the income statement, as opposed to being shown as a reduction of expenses.

In certain of our businesses, primarily those involving management services, we are reimbursed by our clients for expenses incurred on their behalf. The treatment of reimbursable expenses for financial reporting purposes is based upon the fee structure of the underlying contracts. We follow the guidance of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," when accounting for reimbursable personnel and other costs. A contract that provides a fixed fee billing, fully inclusive of all personnel or other recoverable expenses incurred but not separately scheduled, is reported on a gross basis. When accounting on a gross basis, our reported revenues include the full billing to our client and our reported expenses include all costs associated with the client.

We account for a contract on a net basis when the fee structure is comprised of at least two distinct elements, namely a fixed management fee and a separate component that allows for scheduled reimbursable personnel costs or other expenses to be billed directly to the client. When accounting on a net basis, we include the fixed management fee in reported revenues and net the reimbursement against expenses. We base this accounting on the following factors, which define us as an agent rather than a principal:

- The property owner, with ultimate approval rights relating to the employment and compensation of on-site personnel, and bearing all of the economic costs of such personnel, is determined to be the primary obligor in the arrangement;
- Reimbursement to Jones Lang LaSalle is generally completed simultaneously with payment of payroll or soon thereafter;
- Because the property owner is contractually obligated to fund all operating costs of the property from existing cash flow or direct funding from its building operating account, Jones Lang LaSalle bears little or no credit risk; and
- Jones Lang LaSalle generally earns no margin in the reimbursement aspect of the arrangement, obtaining reimbursement only for actual costs incurred.

Most of our service contracts use the latter structure and are accounted for on a net basis. We have always presented the above reimbursable contract costs on a net basis in accordance with U.S. GAAP. Such costs aggregated approximately \$139.6 million and \$128.9 million for the three months ended September 30, 2006 and 2005, respectively. Such costs aggregated approximately \$443.4 million and \$354.0 million for the nine months ended September 30, 2006 and 2005, respectively. This treatment has no impact on operating income, net income or cash flows.

**Investments in Real Estate Ventures**

We invest in certain real estate ventures that own and operate commercial real estate. Typically, these are co-investments in funds that our Investment Management business establishes in the ordinary course of business for its clients. These investments include non-controlling ownership interests generally ranging from less than 1% to 48.72% of the respective ventures. We apply the provisions of the following guidance when accounting for these interests:

- FASB Interpretation No. 46 (revised), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" ("FIN 46R")

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- EITF Issue No. 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights” (“EITF 04-5”)
- AICPA Statement of Position 78-9, “Accounting for Investments in Real Estate Ventures” as amended by FASB Staff Position No. SOP 78-9-a (“SOP 78-9-a”)
- Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock” (“APB 18”)
- EITF Topic No. D-46, “Accounting for Limited Partnership Investments” (“EITF D-46”)

The application of such guidance generally results in accounting for these interests under the equity method in the accompanying consolidated financial statements due to the nature of our non-controlling ownership in the ventures.

8

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Table of Contents

For real estate limited partnerships in which the Company is a general partner, we apply the guidance set forth in FIN 46R, EITF 04-5 and SOP 78-9-a in evaluating the control the Company has over the limited partnership. These entities are generally well-capitalized and grant the limited partners important rights, such as the right to replace the general partner without cause, to dissolve or liquidate the partnership, to approve the sale or refinancing of the principal partnership assets, or to approve the acquisition of principal partnership assets. Such general partner interests are accounted for under the equity method.

For real estate limited partnerships in which the Company is a limited partner, the Company is a co-investment partner, and based on applying the guidance set forth in FIN 46R and SOP 78-9-a, has concluded that it does not have a controlling interest in the limited partnership. When we have an asset advisory contract with the real estate limited partnership, the combination of our limited partner interest and the advisory agreement provides us with significant influence over the real estate limited partnership venture. Accordingly, we account for such investments under the equity method. When the Company does not have an asset advisory contract with the limited partnership, but only has a limited partner interest without significant influence, and our interest in the partnership is considered “minor” under EITF D-46 (i.e., not more than 3 to 5 percent), we account for such investments under the cost method.

For investments in real estate ventures accounted for under the equity method, we maintain an investment account, which is increased by contributions made and by our share of net income of the real estate ventures, and decreased by distributions received and by our share of net losses of the real estate ventures. Our share of each real estate venture’s net income or loss, including gains and losses from capital transactions, is reflected in our consolidated statement of earnings as “Equity in earnings (losses) from real estate ventures.” For investments in real estate ventures accounted for under the cost method, our investment account is increased by contributions made and decreased by distributions representing return of capital.

We apply the provisions of APB 18, SEC Staff Accounting Bulletin Topic 5-M, “Other Than Temporary Impairment Of Certain Investments In Debt And Equity Securities” (“SAB 59”), and Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”) when evaluating investments in real estate ventures for impairment, including impairment evaluations of the individual assets underlying our investments. We review investments in real estate ventures on a quarterly basis for indications of whether the carrying value of the real estate assets underlying our investments in ventures may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows expected to be generated by the underlying assets. When an “other than temporary” impairment has been identified related to a real estate asset underlying one of our investments in real estate ventures, a discounted cash flow approach is used to determine the fair value of the asset in computing the amount of the impairment. We then record the portion of the impairment loss related to our investment in the reporting period.

We report “Equity in earnings (losses) from real estate ventures” in the consolidated statement of earnings after “Operating income (loss).” However, for segment reporting we reflect “Equity earnings (losses)” within “Revenue.” See Note 2 for “Equity earnings (losses)” reflected within segment revenues, as well as discussion of how the Chief Operating Decision Maker (as defined in Note 2) measures segment results with “Equity earnings (losses)” included in segment revenues.

We also hold an investment in equity securities with readily determinable fair values, and have classified the securities as available-for sale securities under the provisions of SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities.” Unrealized holding gains or losses on investments in such securities are reported as a component of “Accumulated other comprehensive income (loss)” within stockholders’ equity until realized.

See Note 4 for additional information on investments in real estate ventures.

### **Business Combinations, Goodwill and Other Intangible Assets**

We apply SFAS 141, "Business Combinations," when accounting for business combinations. We have historically grown through a series of acquisitions and one substantial merger. As a result of this activity, and consistent with the services nature of the businesses we acquired, the largest assets on our balance sheet are the intangibles resulting from business acquisitions and the JLW merger. Beginning January 1, 2002, pursuant to the issuance of SFAS 142, "Goodwill and Other Intangible Assets," we ceased the amortization of intangibles with indefinite useful lives. We continue to amortize intangibles with finite useful lives, which primarily represent the value placed on customer relationships and management contracts acquired as part of our acquisition of another business.

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives not be amortized, but instead evaluated for impairment at least annually. To accomplish this annual evaluation, we determine the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of evaluation. Under SFAS 142, we define reporting units as Investment Management, Americas IOS, Australia IOS, Asia IOS and by country groupings in Europe, Middle East and Africa IOS. We then determine the fair value of each reporting unit on the basis of a discounted cash flow methodology and compare it to the reporting unit's carrying value. The result of the 2006 evaluation was that the fair value of each reporting unit exceeded its carrying amount, and therefore we did not recognize an impairment loss.



Table of Contents

See Note 5 for additional information on business combinations, goodwill and other intangible assets.

**Stock-based Compensation**

Prior to January 1, 2006, we accounted for our stock-based compensation plans under the provisions of SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." These provisions allowed entities to continue to apply the intrinsic value-based method under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and provide disclosure of pro forma net income and net income per share as if the fair value-based method, defined in SFAS 123 as amended by SFAS 148, had been applied. We elected to apply the provisions of APB 25 in accounting for stock options and other stock awards, and accordingly, recognized no compensation expense for stock options granted at the market value of our common stock on the date of grant, or for 15% discounts on stock purchases under our U.S. Employee Stock Purchase Plan ("ESPP"). We did recognize compensation expense over the vesting period of other stock awards (including various grants of restricted stock units and offerings of discounted stock purchases under our Jones Lang LaSalle Savings Related Share Option (UK) Plan) pursuant to APB 25.

Effective January 1, 2006, we account for stock-based compensation in accordance with SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R eliminates the alternative to use APB 25's intrinsic value method of accounting that was provided in SFAS 123 as originally issued. SFAS 123R requires us to recognize expense for the grant-date fair value of stock options and other equity-based compensation issued to employees over the employee's requisite service period. Effective January 1, 2006, we amended our ESPP to provide for a 5% discount on stock purchases and eliminate the "look-back" feature in the plan, which along with the other provisions of the plan allows the ESPP to remain "noncompensatory" under the standard. The adoption of SFAS 123R primarily impacts "Compensation and benefits" expense in our consolidated statement of earnings by changing prospectively our method of measuring and recognizing compensation expense on share-based awards from recognizing forfeitures as incurred to estimating forfeitures at the date of grant. The effect of this change as it relates to prior periods is reflected in "Cumulative effect of change in accounting principle, net of tax" in the consolidated statement of earnings. In the first quarter of 2006, we recorded a \$1.8 million pre-tax, \$1.2 million net of tax, gain for the cumulative effect of this accounting change.

See Note 6 for additional information on stock-based compensation.

**Foreign Currency Translation**

The financial statements of our subsidiaries located outside the United States, except those subsidiaries located in highly inflationary economies, are measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date with the resulting translation adjustments included in our balance sheet as a separate component of stockholders' equity (accumulated other comprehensive income (loss)) and in our disclosure of comprehensive income (loss) in Note 8. Income and expenses are translated at the average monthly rates of exchange. Gains and losses from foreign currency transactions are included in net earnings. For subsidiaries operating in highly inflationary economies, the associated gains and losses from balance sheet translation adjustments are included in net earnings.

**New Accounting Standards**

**Accounting for Uncertainty in Income Taxes**

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, "Accounting for Income Taxes." The evaluation of a tax position in accordance with FIN 48 is a two-step process. First, the Company determines whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the

position. Second, a tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent reporting period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent reporting period in which the threshold is no longer met. The Company is required to apply the guidance of FIN 48 beginning January 1, 2007. Management has not yet determined what impact the application of FIN 48 will have on our consolidated financial statements.

Table of Contents

**Fair Value Measurements**

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to accounting pronouncements that require or permit fair value measurements, except for share-based payment transactions under SFAS 123R. The Company is required to apply the guidance of SFAS 157 beginning January 1, 2008. Management has not yet determined what impact the application of SFAS 157 will have on our consolidated financial statements.

**Accounting for Defined Benefit Pension and Other Postretirement Plans**

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS 158 does not change the basic approach to measuring plan assets, benefit obligations, or annual net periodic benefit cost in SFAS 87, "Employers' Accounting for Pensions," but requires recognition on the balance sheet of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability, with changes in the funded status in the year in which the changes occur recognized in comprehensive income. The Company is required to apply the guidance of SFAS 158 in preparation of our consolidated financial statements for the year ended December 31, 2006. Management has not yet determined what impact the application of SFAS 158 will have on our consolidated financial statements.

**The Effect of Prior Year Errors on Current Year Materiality Evaluations**

In September 2006, the SEC Staff issued SAB 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 requires SEC registrants to consider the effect of all carry over and reversing effects of uncorrected errors in previous years when quantifying errors in current year financial statements. The Company is required to apply the guidance of SAB 108 in preparation of our consolidated financial statements for the year ended December 31, 2006. Management has not yet determined what impact the application of SAB 108 will have on our consolidated financial statements.

**(2) Business Segments**

We manage and report our operations as four business segments:

- (i) Investment Management, which offers money management services on a global basis, and

The three geographic regions of Investor and Occupier Services ("IOS"):

- (ii) Americas,
- (iii) Europe, Middle East and Africa ("EMEA"), and
- (iv) Asia Pacific.

The Investment Management segment provides money management services to institutional investors and high-net-worth individuals. Each geographic region offers our full range of Investor Services, Capital Markets and Occupier Services. The IOS business consists primarily of tenant representation and agency leasing, capital markets and valuation services (collectively "transaction services") and property management, facilities management, project and development management and construction management services (collectively "management services").

Total revenue by industry segment includes revenue derived from services provided to other segments. Operating income represents total revenue less direct and indirect allocable expenses. We allocate all expenses, other than interest and income taxes, as nearly all expenses incurred benefit one or more of the segments. Allocated expenses primarily consist of corporate global overhead, including certain globally managed stock programs. These corporate

global overhead expenses are allocated to the business segments based on the relative revenue of each segment.

Our measure of segment operating results excludes “Restructuring charges (credits),” as we have determined that it is not meaningful to investors to allocate such amounts to our segments. See Note 3 for discussion of “Restructuring charges (credits).” Also, for segment reporting we continue to show “Equity in earnings (losses) from real estate ventures” within our revenue line, especially since it is an integral part of our Investment Management segment. The Chief Operating Decision Maker of Jones Lang LaSalle measures the segment results without restructuring charges (credits), but with “Equity in earnings (losses) from real estate ventures” included in segment revenues. We define the Chief Operating Decision Maker collectively as our Global Executive Committee, which is comprised of our Global Chief Executive Officer, Global Chief Operating and Financial Officer and the Chief Executive Officers of each of our reporting segments.

Summarized unaudited financial information by business segment for the three and nine months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

Table of Contents

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
<b>Americas</b>				
Revenue:				
Transaction services	\$ 75,159	44,825	189,906	113,864
Management services	71,774	55,831	198,836	150,220
Equity earnings	373	198	657	381
Other services	2,823	2,291	8,256	6,040
Intersegment revenue	256	169	915	698
	150,385	103,314	398,570	271,203
Operating expenses:				
Compensation, operating and administrative services	128,415	87,065	359,012	244,953
Depreciation and amortization	5,852	3,797	16,435	11,080
<b>Operating income</b>	<b>\$ 16,118</b>	<b>12,452</b>	<b>23,123</b>	<b>15,170</b>
<b>EMEA</b>				
Revenue:				
Transaction services	\$ 138,448	84,734	326,933	236,720
Management services	27,812	22,179	71,595	70,051
Equity earnings (losses)	22	—	(284)	(226)
Other services	3,406	3,740	10,771	9,099
	169,688	110,653	409,015	315,644
Operating expenses:				
Compensation, operating and administrative services	152,518	105,164	386,113	307,046
Depreciation and amortization	3,518	2,435	8,867	7,439
<b>Operating income</b>	<b>\$ 13,652</b>	<b>3,054</b>	<b>14,035</b>	<b>1,159</b>
<b>Asia Pacific</b>				
Revenue:				
Transaction services	\$ 45,019	35,461	118,856	101,674
Management services	32,769	28,604	88,650	78,310
Equity earnings (losses)	(135)	—	1,714	—
Other services	622	(756)	3,319	777
Intersegment revenue	141	—	203	—
	78,416	63,309	212,742	180,761
Operating expenses:				
Compensation, operating and administrative services	78,480	60,741	206,842	168,310
Depreciation and amortization	1,819	1,745	5,579	5,414
<b>Operating (loss) income</b>	<b>\$ (1,883)</b>	<b>823</b>	<b>321</b>	<b>7,037</b>
<b>Investment Management</b>				
Revenue:				
Transaction and other services	\$ 4,218	3,722	19,153	14,613

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Advisory fees	45,595	32,601	126,947	93,369
Incentive fees	14,672	13,154	145,982	16,911
Equity earnings	513	2,166	7,335	5,949
Intersegment revenue (expense)	(61)	—	(120)	—
	64,937	51,643	299,297	130,842
<b>Operating expenses:</b>				
Compensation, operating and administrative services	54,430	37,937	196,710	100,373
Depreciation and amortization	334	344	996	1,034
<b>Operating income</b>	<b>\$ 10,173</b>	<b>13,362</b>	<b>101,591</b>	<b>29,435</b>

12

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Table of Contents**Segment Reconciling Items:**

Total segment revenue	\$ 463,426	328,919	1,319,624	898,450
Intersegment revenue eliminations	(336)	(169)	(998)	(698)
Reclassification of equity earnings	(773)	(2,366)	(9,422)	(6,104)
Total revenue	462,317	326,384	1,309,204	891,648
Total segment operating expenses	425,366	299,228	1,180,554	845,649
Intersegment operating expense eliminations	(336)	(169)	(998)	(698)
Total operating expenses before restructuring charges (credits)	425,030	299,059	1,179,556	844,951
Restructuring charges (credits)	—	721	(670)	471
<b>Operating income</b>	<b>\$ 37,287</b>	<b>26,604</b>	<b>130,318</b>	<b>46,226</b>

**(3) Restructuring Charges (Credits)****Land Investment and Development Group**

In 2001, we closed our non-strategic residential land business in the Americas region of the Investment Management segment. Sales of assets from this business resulted in gains of \$0.4 million in the three months ended September 30, 2005, and gains of \$0.7 million and \$0.4 million for the nine months ended September 30, 2006 and 2005, respectively. As no assets were sold in the three months ended September 30, 2006, no restructuring charges or credits were recorded in the current period.

**Business Restructuring**

Business restructuring charges include severance and professional fees associated with the realignment of our business. In the third quarter of 2005, we initiated a restructuring program in Germany, where workforce reductions resulted in a charge of \$1.1 million in that quarter. For the nine months ended September 30, 2005, this charge was offset by \$0.2 million of net credits taken in the second quarter of 2005 relative to a 2002 restructuring program, where actual costs incurred varied from initial estimates. Actual costs incurred can vary from original estimates as a result of the identification of additional facts and circumstances, the complexity of international labor law, developments in the underlying business resulting in the unforeseen reallocation of resources and better or worse than expected settlement discussions.

**(4) Investments in Real Estate Ventures**

As of September 30, 2006, we had total investments and loans of \$125.6 million in approximately 30 separate property or real estate fund co-investments, and a \$1.9 million investment in LoopNet, Inc. LoopNet operates an online marketplace for commercial real estate in the United States, and delivers technology and information services to commercial real estate organizations to manage their online listing presence and property marketing. Our investment in LoopNet is accounted for as an investment in available-for-sale securities under SFAS 115.

Within the \$125.6 million of property or fund co-investments, loans of \$3.3 million to real estate ventures bear interest rates ranging from 7.25% to 8.0% and are to be repaid by 2008. Following is a table summarizing our investments in real estate limited partnerships or similar entities (\$ in millions):

Type of Interest	Percent Ownership of Real Estate Limited	Accounting Method	Carrying Value
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## Partnership Venture

General partner	0% to 1%	Equity	\$	0.2
Limited partner with advisory agreements	<1% to 48.72%	Equity		124.9
<b>Equity method</b>			<b>\$</b>	<b>125.1</b>
Limited partner without advisory agreements	<1% to 5%	Cost		0.5
<b>Total</b>			<b>\$</b>	<b>125.6</b>

We utilize two investment vehicles to facilitate the majority of our co-investment activity. LaSalle Investment Company I (“LIC I”) is a series of four parallel limited partnerships which serve as our investment vehicle for substantially all co-investment commitments made through December 31, 2005. LaSalle Investment Company II (“LIC II”), formed in January 2006, is comprised of two parallel limited partnerships which serve as our investment vehicle for most new co-investments. LIC I and LIC II invest in certain real estate ventures that own and operate commercial real estate. We have an effective 47.85% ownership interest in LIC I, and an effective 48.72% ownership interest in LIC II; primarily institutional investors hold the remaining 52.15% and 51.28% interests in LIC I and LIC II, respectively. Our investments in LIC I and LIC II are accounted for under the equity method of accounting in the accompanying consolidated financial statements. Additionally, a non-executive Director of Jones Lang LaSalle is an investor in LIC I on equivalent terms to other investors.



Table of Contents

At September 30, 2006, LIC I and LIC II have unfunded capital commitments of \$146.5 million and \$153.6 million, respectively, of which our 47.85% and 48.72% shares are \$70.1 million and \$74.8 million, respectively, for future fundings of co-investments. These \$70.1 million and \$74.8 million commitments are part of our maximum potential unfunded commitments to LIC I and LIC II at September 30, 2006, which are euro 78.5 million (\$99.5 million) and \$338.4 million, respectively.

LIC I's and LIC II's exposures to liabilities and losses of the ventures are limited to their existing capital contributions and remaining capital commitments. We expect that LIC I will draw down on our commitment over the next three to five years to satisfy its existing commitments to underlying funds, and that LIC II will draw down on our commitment over the next six to eight years as it enters into new commitments. Our Board of Directors has endorsed the use of our co-investment capital in particular situations to control or bridge finance existing real estate assets or portfolios to seed future investments within LIC II. The purpose is to accelerate capital raising and growth in assets under management. Approvals for such activity are handled consistently with those of the Firm's co-investment capital.

As of September 30, 2006, LIC I maintains a euro 35 million (\$44.4 million) revolving credit facility (the "LIC I Facility"), and LIC II maintains a \$200 million revolving credit facility (the "LIC II Facility"), principally for their working capital needs. The capacity in the LIC II Facility contemplates potential bridge financing opportunities. Each facility contains a credit rating trigger (related to the credit ratings of one of LIC I's investors and one of LIC II's investors, who are unaffiliated with Jones Lang LaSalle) and a material adverse condition clause. If either of the credit rating trigger or the material adverse condition clause becomes triggered, the facility to which that condition relates would be in default and would need to be repaid. Such a condition would require us to fund our pro-rata share of the then outstanding balance on the related facility, which is the limit of our liability. The maximum exposure to Jones Lang LaSalle, assuming that the LIC I Facility were fully drawn, would be euro 16.7 million (\$21.2 million); assuming that the LIC II Facility were fully drawn, the maximum exposure to Jones Lang LaSalle would be \$97.4 million. Each exposure is included within and cannot exceed our maximum potential unfunded commitments to LIC I of euro 78.5 million (\$99.5 million) and to LIC II of \$338.4 million discussed above. As of September 30, 2006, LIC I had euro 8.2 million (\$10.4 million) of outstanding borrowings on the LIC I Facility, and LIC II had \$3.8 million of outstanding borrowings on the LIC II Facility.

Exclusive of our LIC I and LIC II commitment structures, we have potential obligations related to unfunded commitments to other real estate ventures, the maximum of which is \$2.9 million at September 30, 2006.

We expect to continue to pursue co-investment opportunities with our real estate money management clients in the Americas, EMEA and Asia Pacific, as co-investment remains very important to the continued growth of Investment Management. The net co-investment funding for 2006 is anticipated to be between \$50 and \$60 million (planned co-investment less return of capital from liquidated co-investments).

We apply the provisions of APB 18, SAB 59, and SFAS 144 when evaluating investments in real estate ventures for impairment, including impairment evaluations of the individual assets underlying our investments. For the three and nine months ended September 30, 2006, we have recorded no impairment charges. For the nine months ended September 30, 2005, we recorded \$1.5 million of such charges to "Equity in earnings (losses) from real estate ventures," representing our equity share of the impairment charges against individual assets held by these ventures. We recorded an insignificant amount of net impairment charges for the three months ended September 30, 2005.

**(5) Business Combinations, Goodwill and Other Intangible Assets**

We have \$552.6 million of unamortized identified intangibles and goodwill as of September 30, 2006 that are subject to the provisions of SFAS 142, "Goodwill and Other Intangible Assets." A significant portion of these unamortized

intangibles and goodwill are denominated in currencies other than U.S. dollars, which means that a portion of the movements in the reported book value of these balances are attributable to movements in foreign currency exchange rates. The tables below set forth further details on the foreign exchange impact on intangible and goodwill balances. Of the \$552.6 million of unamortized intangibles and goodwill, \$512.8 million represents goodwill with indefinite useful lives, which we ceased amortizing beginning January 1, 2002. The remaining \$39.8 million of identifiable intangibles (principally representing customer relationships and management contracts acquired) are amortized over their remaining finite useful lives.

Table of Contents

In January 2006, we acquired Spaulding & Slye, a privately-held real estate services and investment company with offices in Boston and Washington, D.C. Spaulding & Slye delivers full-scale development, leasing, management, investment sales, construction and structured finance services to corporate, institutional and investor clients. Terms for the transaction, which was financed with Jones Lang LaSalle's existing revolving credit facility, were \$150 million cash paid at closing with provisions for additional consideration and an earn-out that are subject to certain contract provisions and performance. The fair value of the additional consideration is recorded as "Deferred business acquisition obligations" on our consolidated balance sheet, and consists of \$20 million and \$15 million to be paid in January 2008 and December 2008, respectively. Payment of the earn-out is subject to the achievement of certain performance conditions, and will be recorded at the time those conditions are met; the earn-out will be recorded only if the related conditions are achieved. Intangible assets with finite useful lives, including the value of customer relationships acquired, certain restrictive agreements, and use of the Spaulding & Slye Investments name were attributed a total value of \$41.6 million, and will be amortized over lives ranging from 3 to 10 years. The remaining direct costs of acquisition were attributed to goodwill.

In May 2006, we acquired Rogers Chapman, a privately-held specialist commercial real estate advisor in the United Kingdom. In June 2006, we acquired The Littman Partnership, a privately-held specialist-planning business, also in the United Kingdom. Aggregate consideration for the two transactions included cash paid at closing totaling 7.8 million pounds sterling (\$14.4 million) with provisions for additional consideration and earn-outs subject to certain contract provisions and performance. The fair value of the additional consideration is recorded in "Deferred business acquisition obligations" on our consolidated balance sheet, and consists of 0.6 million pounds sterling (\$1.1 million) to be paid in 2009. Earn-out payments are subject to the achievement of certain performance conditions, and will be recorded at the time those conditions are met; each earn-out will be recorded only if the related conditions are achieved. Intangible assets with finite useful lives, including the value of customer relationships acquired and certain restrictive agreements, were attributed a total value of 0.5 million pounds sterling (\$0.9 million), and will be amortized over lives of up to 3 years. The remaining direct costs of acquisitions were attributed to goodwill.

In September 2006, we acquired RSP Group, a Dubai-based real estate investment and advisory firm, for \$14 million cash paid at closing with provisions for earn-outs subject to certain contract provisions and performance. Earn-out payments are subject to the achievement of certain performance conditions, and will be recorded at the time those conditions are met; each earn-out will be recorded only if the related conditions are achieved. Intangible assets with finite useful lives, including the value of customer relationships acquired and certain restrictive agreements, were attributed a total value of \$1.9 million, and will be amortized over lives of up to 3 years. The remaining direct costs of acquisition were attributed to goodwill.

The following table sets forth, by reporting segment, the current year movements in the gross carrying amount and accumulated amortization of our goodwill with indefinite useful lives (\$ in thousands):

	Investor and Occupier Services				
	Americas	EMEA	Asia Pacific	Investment Management	Consolidated
<b>Gross Carrying Amount</b>					
Balance as of January 1, 2006	\$ 185,339	67,291	92,552	27,999	\$ 373,181
Additions	143,152	27,159	—	—	170,311
Impact of exchange rate movements	—	5,305	503	1,596	7,404
Balance as of September 30, 2006	328,491	99,755	93,055	29,595	550,896

**Accumulated Amortization**

Balance as of January 1, 2006	\$	(15,457)	(5,755)	(6,825)	(9,413)	\$	(37,450)
Impact of exchange rate movements		—	(406)	(27)	(235)		(668)
Balance as of September 30, 2006		(15,457)	(6,161)	(6,852)	(9,648)		(38,118)
<b>Net book value as of September 30, 2006</b>	<b>\$</b>	<b>313,034</b>	<b>93,594</b>	<b>86,203</b>	<b>19,947</b>	<b>\$</b>	<b>512,778</b>

15

Table of Contents

The following table sets forth, by reporting segment, the current year movements in the gross carrying amount and accumulated amortization of our intangibles with finite useful lives (\$ in thousands):

	Investor and Occupier Services				
	Americas	EMEA	Asia Pacific	Investment Management	Consolidated
<b>Gross Carrying Amount</b>					
Balance as of January 1, 2006	\$ 41,310	571	2,739	5,131	\$ 49,751
Additions	41,619	2,802	—	—	44,421
Impact of exchange rate movements	—	61	52	445	558
Balance as of September 30, 2006	82,929	3,434	2,791	5,576	94,730
<b>Accumulated Amortization</b>					
Balance as of January 1, 2006	\$ (37,237)	(571)	(2,421)	(5,131)	\$ (45,360)
Amortization expense	(8,129)	(556)	(285)	—	(8,970)
Impact of exchange rate movements	—	(62)	(56)	(445)	(563)
Balance as of September 30, 2006	(45,366)	(1,189)	(2,762)	(5,576)	(54,893)
<b>Net book value as of September 30, 2006</b>	<b>\$ 37,563</b>	<b>2,245</b>	<b>29</b>	<b>—</b>	<b>\$ 39,837</b>

Remaining estimated future amortization expense for our intangibles with finite useful lives (\$ in millions):

2006	\$ 2.7
2007	7.0
2008	6.6
2009	3.7
2010	3.5
Thereafter	16.3
Total	\$ 39.8

**(6) Stock-based Compensation**

The Jones Lang LaSalle Amended and Restated Stock Award and Incentive Plan (“SAIP”) provides for the granting of various stock awards to eligible employees of Jones Lang LaSalle. Such awards include restricted stock units and options to purchase a specified number of shares of common stock. Under the plan, the total number of shares available to be issued is 12,110,000. There were approximately 2.8 million shares available for grant under the SAIP at September 30, 2006.

We adopted SFAS 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) as of January 1, 2006 using the modified prospective approach. The adoption of SFAS 123R primarily impacts “Compensation and benefits” expense in our consolidated statement of earnings by changing prospectively our method of measuring and recognizing compensation expense on share-based awards from recognizing forfeitures as incurred to estimating forfeitures at the date of grant.

The effect of this change as it relates to prior periods is reflected in “Cumulative effect of change in accounting principle, net of tax” in the consolidated statement of earnings. In the nine month period ended September 30, 2006, we recorded a \$1.8 million pre-tax, \$1.2 million net of tax, gain for the cumulative effect of this accounting change.

In prior years, we did not recognize compensation cost on stock option awards in accordance with SFAS 123, as amended by SFAS 148. These provisions allowed entities to continue to apply the intrinsic value-based method under the provisions of APB 25. Accordingly, we provided disclosure of pro forma net income and net income per share as if the fair value-based method, defined in SFAS 123, as amended by SFAS 148, had been applied. We have recognized other stock awards (including various grants of restricted stock units and offerings of discounted stock purchases under employee stock purchase plans) as compensation expense over the vesting period of those awards pursuant to APB 25 prior to January 1, 2006, and subsequently in accordance with SFAS 123R.

Table of Contents

Share-based compensation expense is included within the “Compensation and benefits” line of our consolidated statement of earnings. Share-based compensation expense for the three and nine months ended September 30, 2006 and 2005, respectively, consisted of the following (\$ in thousands):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Stock option awards	\$ 17	—	51	—
Restricted stock unit awards	11,331	7,433	28,585	17,600
ESPP	—	—	—	—
UK SAYE	57	57	167	(44)
	\$ 11,405	7,490	28,803	17,556

The following table provides net income and pro forma net income per common share as if the fair value-based method had been applied to all awards for the three and nine months ended September 30, 2005 (\$ in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income available to common shareholders, as reported	\$ 20,231	36,400
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	6,324	15,156
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(7,149)	(17,274)
<b>Pro forma net income</b>	<b>\$ 19,406</b>	<b>34,282</b>
Net earnings per share:		
<b>Basic—as reported</b>	<b>\$ 0.64</b>	<b>1.16</b>
<b>Basic—pro forma</b>	<b>\$ 0.61</b>	<b>1.10</b>
<b>Diluted—as reported</b>	<b>\$ 0.61</b>	<b>1.10</b>
<b>Diluted—pro forma</b>	<b>\$ 0.58</b>	<b>1.04</b>

**Stock Option Awards**

We have granted stock options at the market value of common stock at the date of grant. Our options vest at such times and conditions as the Compensation Committee of our Board of Directors determines and sets forth in the award agreement; the most recent options granted (in 2003) vest over periods of up to five years. As a result of a change in compensation strategy, we do not currently use stock option grants as part of our employee compensation program; no options were granted in 2004 or 2005, and none have been granted through September 30, 2006.

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The per share weighted average fair value of options granted during 2003 was \$7.85 on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected dividend yield	0.00%
Risk-free interest rate	3.56%
Expected life	6 to 9 years
Expected volatility	42.85%
Contractual terms	7 to 10 years



Table of Contents

Stock option activity for the three months ended September 30, 2006, is as follows:

	Options (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$ in millions)
Outstanding at June 30, 2006	499.3	\$ 18.13		
Granted	—	—		
Exercised	(100.4)	19.16		
Forfeited	—	—		
<b>Outstanding at September 30, 2006</b>	<b>398.9</b>	<b>\$ 17.94</b>	<b>2.52 years</b>	<b>\$ 26.9</b>
<b>Exercisable at September 30, 2006</b>	<b>382.6</b>	<b>\$ 17.92</b>	<b>2.37 years</b>	<b>\$ 25.8</b>

Stock option activity for the nine months ended September 30, 2006, is as follows:

	Options (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$ in millions)
Outstanding at January 1, 2006	1,110.1	\$ 19.86		
Granted	—	—		
Exercised	(689.8)	20.62		
Forfeited	(21.4)	30.80		
<b>Outstanding at September 30, 2006</b>	<b>398.9</b>	<b>\$ 17.94</b>	<b>2.52 years</b>	<b>\$ 26.9</b>
<b>Exercisable at September 30, 2006</b>	<b>382.6</b>	<b>\$ 17.92</b>	<b>2.37 years</b>	<b>\$ 25.8</b>

Until the adoption of SFAS 123R on January 1, 2006, we had not recognized any compensation expense for stock options granted at the market value of our common stock on the date of grant. As of September 30, 2006, we have approximately 398,900 options outstanding, of which approximately 16,300 options were unvested.

We recognized \$0.02 million and \$0.05 million of compensation expense related to the unvested options for the three and nine months ended September 30, 2006, respectively. Approximately \$0.04 million of compensation cost remains to be recognized on unvested options through 2008.

The fair values of shares underlying options that vested in the three months ended September 30, 2006 and 2005 were \$0.5 million and \$0.3 million, respectively, and in the nine months ended September 30, 2006 and 2005 were \$2.4 million and \$8.1 million, respectively. The intrinsic values of options that vested in the three months ended September 30, 2006 and 2005 were \$0.4 million and \$0.2 million, respectively, and in the nine months ended September 30, 2006 and 2005 were \$1.9 million and \$3.7 million, respectively.

The following table summarizes information about exercises of options occurring during the three and nine months ended September 30, 2006 and 2005 (\$ in millions):

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended

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	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Number of options exercised	100,451	201,115	689,830	922,704
Aggregate fair value	\$ 8.3	9.6	47.8	40.2
Intrinsic value	6.4	5.1	33.6	18.3
Amount of cash received	\$ 1.9	4.5	14.2	21.9
Tax benefit recognized	\$ 2.4	1.9	12.7	6.6

18

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Table of Contents**Restricted Stock Unit Awards**

Restricted stock activity for the three months ended September 30, 2006 is as follows:

	Weighted Average Shares (thousands)	Weighted Average Grant Date Fair Value	Aggregate Remaining Contractual Life	Intrinsic Value (\$ in millions)
Unvested at June 30, 2006	2,856.2	\$ 36.44		
Granted	7.0	82.46		
Vested	(732.6)	25.63		
Forfeited	(7.9)	30.34		
<b>Unvested at September 30, 2006</b>	<b>2,122.7</b>	<b>\$ 40.34</b>	<b>1.77 years</b>	<b>\$ 95.8</b>
<b>Unvested shares expected to vest</b>	<b>2,002.7</b>	<b>\$ 39.94</b>	<b>1.75 years</b>	<b>\$ 91.2</b>

Restricted stock activity for the nine months ended September 30, 2006 is as follows:

	Shares (thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$ in millions)
Unvested at January 1, 2006	2,084.9	\$ 28.17		
Granted	832.1	57.03		
Vested	(746.1)	25.54		
Forfeited	(48.2)	31.23		
<b>Unvested at September 30, 2006</b>	<b>2,122.7</b>	<b>\$ 40.34</b>	<b>1.77 years</b>	<b>\$ 95.8</b>
<b>Unvested shares expected to vest</b>	<b>2,002.7</b>	<b>\$ 39.94</b>	<b>1.75 years</b>	<b>\$ 91.2</b>

As of September 30, 2006, there was \$44.0 million of remaining unamortized deferred compensation related to unvested restricted stock units. The remaining cost of unvested restricted stock units granted through September 30, 2006 will be recognized over varying periods into 2011.

Approximately 732,600 and 746,100 restricted stock unit awards vested during the three and nine months ended September 30, 2006, having aggregate fair values of \$64.8 million and \$64.1 million and intrinsic values of \$45.8 million and \$45.4 million for those periods, respectively. As a result of the vestings, we recognized tax benefits of \$14.5 million and \$14.7 million for the three and nine months ended September 30, 2006.

Additionally, the Compensation Committee of the Board of Directors approved certain retirement criteria in December 2005, whereby an employee age 55 or older, with a sum of age plus years of service with the Company which meets or exceeds 65, would be eligible to be considered for receipt of retirement benefits upon departure from the Company. In the third quarter of 2006, we determined that these criteria trigger application of certain provisions of SFAS 123R whereby compensation expense for restricted stock unit awards granted after our adoption of SFAS 123R (i.e., beginning January 1, 2006) to employees meeting the established criteria should be accelerated such that all expense for an employee's award is recognized by the time that employee meets the criteria to be considered for retirement eligibility. Restricted stock unit awards granted in the first quarter of 2006 to employees meeting the criteria to be considered for retirement eligibility in that quarter had an unamortized value of \$2.5 million at March 31,

2006. These 2006 awards continued to be amortized over the stated vesting periods into the third quarter of 2006. We accelerated the remaining \$2.2 million of unamortized compensation expense in the quarter ended September 30, 2006. We believe that correction of this error is not material to the consolidated financial statements in any quarter of this year, nor do we believe it to be material to consolidated earnings trends.

In accordance with SFAS 123R, we will continue to recognize compensation cost over the stated vesting periods for awards granted prior to January 1, 2006 until the earlier of the completion of the stated vesting period for such awards or the date actual retirement occurs. If we had applied the substantive vesting period provisions of SFAS 123R (including the impact of retirement eligibility) for awards issued before our adoption of SFAS 123R, recorded compensation expense would have been reduced by \$0.1 million and \$0.7 million for the three and nine month periods ended September 30, 2006, respectively, as such amortization would have been recognized in prior years.

Table of Contents**Other Stock Compensation Programs**

U.S. Employee Stock Purchase Plan - In 1998, we adopted an Employee Stock Purchase Plan ("ESPP") for eligible U.S.-based employees. Under the current plan, employee contributions for stock purchases are enhanced by us through an additional contribution of a 5% discount on the purchase price as of the end of a program period; program periods are now three months each. Employee contributions and our contributions vest immediately. Since its inception, 1,311,238 shares have been purchased under the program through September 30, 2006. During the three months ended September 30, 2006, 12,748 shares having a grant date market value of \$85.48 were purchased under the program. During the nine months ended September 30, 2006, 46,122 shares having a weighted average grant date market value of \$82.04 were purchased under the program. No compensation expense is recorded with respect to this program.

UK SAYE - In November 2001, we adopted the Jones Lang LaSalle Savings Related Share Option (UK) Plan ("Save As You Earn" or "SAYE") for eligible employees of our UK-based operations. Our Compensation Committee originally approved the reservation of 500,000 shares for the SAYE on May 14, 2001. At our 2006 Annual Meeting, our shareholders approved an increase of 500,000 in the number of shares reserved for issuance under the SAYE. Under this plan, employee contributions for stock purchases are enhanced by us through an additional contribution of a 15% discount on the purchase price. Both employee and employer contributions vest over a period of three to five years. Employees have had the opportunity to contribute to the plan in 2002, 2005 and 2006. In 2002, employee and employer contributions resulted in the issuance of approximately 220,000 options at an exercise price of \$13.63. Our contribution of \$0.5 million is recorded as compensation expense over the vesting period. The first vesting of these options occurred in 2005 with the remaining to vest in 2007. In 2005, employee and employer contributions resulted in the issuance of approximately 106,000 options at an exercise price of \$35.33. Our contribution of \$0.7 million is recorded as compensation expense over the vesting period. The first vesting of these options will occur in 2008 with the remaining to vest in 2010. In 2006, employee and employer contributions resulted in the issuance of approximately 37,000 options at an exercise price of \$58.96. Our contribution of \$0.3 million will be recorded as compensation expense over the vesting period. The first vesting of these options will occur in 2009 with the remaining to vest in 2011.

**(7) Earnings Per Share and Net Income Available to Common Shareholders**

Earnings per share is calculated by dividing net income available to common shareholders by weighted average shares outstanding. To calculate net income available to common shareholders, we subtract dividend-equivalents (net of tax) to be paid on outstanding but unvested shares of restricted stock units from net income in the period the dividend is declared. Included in the calculations of net income available to common shareholders are dividend-equivalents of \$0.25 per share on outstanding but unvested shares of restricted stock units that were part of the semi-annual cash dividends of \$0.25 per share of common stock declared by the Company's Board of Directors on April 19, 2006 and August 17, 2005.

For the three and nine months ended September 30, 2006, we calculated basic earnings per common share based on basic weighted average shares outstanding of 32,106,994 and 31,771,247, respectively, and calculated diluted earnings per common share based on diluted weighted average shares outstanding of 33,751,054 and 33,319,566, respectively. The difference between basic weighted average shares outstanding and diluted weighted average shares outstanding is the dilutive impact of common stock equivalents. Common stock equivalents consist primarily of shares to be issued under employee stock compensation programs and outstanding stock options whose exercise price was less than the average market price of our stock during these periods. We did not include in weighted average shares outstanding the 4,349,651 or 3,328,551 shares that had been repurchased as of September 30, 2006 and 2005, respectively, and which are held by one of our subsidiaries. See Part II, Item 2. Share Repurchases for additional information.



Table of Contents

The table below details certain components in the calculation of earnings defined as “net income available to common shareholders,” as well as the per share impact of those components.

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net income before cumulative effect of change in accounting principle	\$ 24,697	20,617	94,293	36,786
Cumulative effect of change in accounting principle, net of tax	—	—	1,180	—
Net income	\$ 24,697	20,617	95,473	36,786
Dividends on unvested common stock, net of tax benefit	—	386	522	386
<b>Net income available to common shareholders</b>	<b>\$ 24,697</b>	<b>20,231</b>	<b>94,951</b>	<b>36,400</b>
Basic weighted average shares outstanding	32,106,994	31,576,006	31,771,247	31,296,057
Basic income per common share before cumulative effect of change in accounting principle and dividends on unvested common stock	\$ 0.77	0.65	2.97	1.17
Cumulative effect of change in accounting principle, net of tax	—	—	0.04	—
Dividends on unvested common stock, net of tax benefit	—	(0.01)	(0.02)	(0.01)
<b>Basic earnings per common share</b>	<b>\$ 0.77</b>	<b>0.64</b>	<b>2.99</b>	<b>1.16</b>
Diluted weighted average shares outstanding	33,751,054	33,425,883	33,319,566	32,990,066
Diluted income per common share before cumulative effect of change in accounting principle and dividends on unvested common stock	\$ 0.73	0.62	2.83	1.11
Cumulative effect of change in accounting principle, net of tax	—	—	0.04	—
Dividends on unvested common stock, net of tax benefit	—	(0.01)	(0.02)	(0.01)
<b>Diluted earnings per common share</b>	<b>\$ 0.73</b>	<b>0.61</b>	<b>2.85</b>	<b>1.10</b>

**(8) Comprehensive Income**

For the three and nine months ended September 30, 2006 and 2005, comprehensive income was as follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
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Net income	\$	24,697	20,617	95,473	36,786
Other comprehensive income (loss):					
Foreign currency translation adjustments		2,662	(2,932)	29,804	(31,679)
Unrealized holding (loss) gain on investments		(900)	—	1,905	—
<b>Comprehensive income</b>	<b>\$</b>	<b>26,459</b>	<b>17,685</b>	<b>127,182</b>	<b>5,107</b>

21

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Table of Contents**(9) Retirement Plans**

We maintain contributory defined benefit pension plans in the United Kingdom, Ireland and Holland to provide retirement benefits to eligible employees. It is our policy to fund the minimum annual contributions required by applicable regulations. We use a December 31 measurement date for our plans.

Net periodic pension cost consisted of the following for the nine months ended September 30, 2006 and 2005 (\$ in thousands):

		2006	2005
Employer service cost - benefits earned during the year	\$	2,655	2,371
Interest cost on projected benefit obligation		6,740	5,919
Expected return on plan assets		(7,779)	(6,891)
Net amortization/deferrals		1,566	283
Recognized actual loss		168	129
<b>Net periodic pension cost</b>	<b>\$</b>	<b>3,350</b>	<b>1,811</b>

In the nine months ended September 30, 2006, we have made \$3.4 million in payments to our defined benefit pension plans. We expect to contribute a total of \$4.0 million to our defined benefit pension plans in 2006. We made \$9.1 million of contributions to these plans in the twelve months ended December 31, 2005.

**(10) Commitments and Contingencies**

We are a defendant in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Many of these litigation matters are covered by insurance (including insurance provided through a captive insurance company), although they may nevertheless be subject to large deductibles or retentions and the amounts being claimed may exceed the available insurance. Although the ultimate liability for these matters cannot be determined, based upon information currently available, we believe the ultimate resolution of such claims and litigation will not have a material adverse effect on our financial position, results of operations or liquidity.

**(11) Subsequent Events**

In October 2006, we acquired areAZero, a leading occupier fit-out company in Spain. Terms for the transaction were euro 7.0 million (\$8.9 million) cash paid at closing with provisions for adjustments to total consideration subject to certain contract provisions and performance.

On October 31, 2006, our Board of Directors declared a semi-annual dividend of \$0.35 per share of common stock. The dividend payment will be made on December 15, 2006, to holders of record at the close of business on November 15, 2006. This amount represents an increase of \$0.10 per share, or 40%, over the amount of the semi-annual dividend that was paid in June 2006. A dividend-equivalent in the same amount also will be paid simultaneously on outstanding but unvested shares of restricted stock units granted under the SAIP or in lieu of certain cash bonus payments under our Stock Ownership Plan.

Table of Contents

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements, including the notes thereto, for the three and nine months ended September 30, 2006, included herein, and Jones Lang LaSalle's audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2005, which have been filed with the SEC as part of our 2005 Annual Report on Form 10-K and are also available on our website ([www.joneslanglasalle.com](http://www.joneslanglasalle.com)).

The following discussion and analysis contains certain forward-looking statements which are generally identified by the words anticipates, believes, estimates, expects, plans, intends and other similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause Jones Lang LaSalle's actual results, performance, achievements, plans and objectives to be materially different from any future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements. See the Cautionary Note Regarding Forward-Looking Statements in Part II, Item 5. Other Information.

Our Management's Discussion and Analysis is presented in six sections, as follows:

- (1) An executive summary, including how we create value for our stakeholders,
- (2) A summary of our critical accounting policies and estimates,
- (3) Certain items affecting the comparability of results and certain market and other risks that we face,
- (4) The results of our operations, first on a consolidated basis and then for each of our business segments,
- (5) Consolidated cash flows, and
- (6) Liquidity and capital resources.

**Executive Summary**

**Business Objectives and Strategies**

We define our stakeholders as:

- The clients we serve,
- The people we employ, and
- The shareholders who invest in our Company.

We create value for these stakeholders by enabling and motivating our employees to apply their expertise to deliver services that our clients acknowledge as adding value to their real estate and business operations. We believe that this ability to add value is demonstrated by our clients' repeat or expanded service requests and by the strategic alliances we have formed with them.

The services we provide require "on the ground" expertise in local real estate markets. Such expertise is the product of research into market conditions and trends, expertise in buildings and locations, and expertise in competitive conditions. This real estate expertise is at the heart of the history and strength of the Jones Lang LaSalle brand. One of our key differentiating factors, as a result, is our global reach and service imprint in local markets around the world.

We enhance our local market expertise with a global team of research professionals, with the best practice processes we have developed and delivered repeatedly for our clients, and with the technology investments that support these best practices.

Our principal asset is the talent and the expertise of our people. We seek to support our service-based culture through a compensation system that rewards superior client service performance, not just transaction activity, and that includes a meaningful long-term compensation component. We invest in training and believe in optimizing our talent base through internal advancement. We believe that our people deliver our services with the experience and expertise to maintain a balance of strong profit margins for the Firm and competitive value-added pricing for our clients, while achieving competitive compensation levels.

Because we are a services business, we are not capital intensive. As a result, our profits also produce strong cash returns. Over the past four years, we have used this cash strategically to:

- Significantly pay down our debt, resulting in significantly reduced interest expense and allowing us the opportunity to make business acquisitions within our desired leverage ratio;
- Purchase shares under our share repurchase programs and initiate a dividend program;
- Invest for growth in important markets throughout the world; and
- Co-invest in LaSalle Investment Management sponsored and managed funds.

Table of Contents

We believe value is enhanced by investing appropriately in growth opportunities, maintaining our market position in developed markets and keeping our balance sheet strong.

The services we deliver are managed as business strategies to enhance the synergies and expertise of our people. The principal businesses in which we are involved are:

- Local Market Services,
- Occupier Services,
- Capital Markets, and
- Money Management.

The market knowledge we develop in our services and capital markets businesses helps us identify investment opportunities and capital sources for our money management clients. Consistent with our fiduciary responsibilities, the investments we make or structure on behalf of our money management clients help us identify new business opportunities for our services and capital markets businesses.

To prioritize our strategic investments, in early 2005 we identified five strategic priorities for continued growth which, collectively, we refer to as the Global Five Priorities, or the “G5.” We have initiated a five-year program designed to invest capital and resources that will maintain and extend our global leadership positions in the G5, which we define as follows:

G1: Local and regional service operations. Our strength in local and regional markets determines the strength of our global service capabilities. Our financial performance also depends, in great part, on the business we source and execute locally in more than 100 markets around the world.

G2: Global Corporate Solutions. The accelerating trends of globalization and the outsourcing of real estate services by corporate occupiers support our decision to emphasize a truly global corporate real estate outsourcing and services business to serve their needs comprehensively. This service delivery capability helps us create new client relationships. In addition, current corporate clients are demanding multi-regional capabilities.

G3: Global Capital Markets. Our focus on the further development of our global Capital Markets service delivery capability reflects increasing international cross-border money flows to real estate, and the accelerated global marketing of assets that has resulted.

G4: LaSalle Investment Management. With a truly integrated global platform, our LaSalle Investment Management business is already well positioned to serve institutional real estate investors looking for attractive opportunities around the world. Our continued investment in LaSalle’s ability to develop and offer new products quickly, and to extend its portfolio capabilities into promising new markets, is intended to enhance that position.

G5: World-standard business operations. To gain maximum benefit from our other priorities, we must have superior operating and support procedures and processes to serve our clients and support our people. Our goal is to equip our people with the knowledge and risk management tools and other infrastructure resources they need to create sustainable value for our clients.

We committed resources to all G5 priorities during 2005 and have continued to do so throughout 2006. By continuing to invest in our future based on our view of how our strengths can support the needs of our clients, we intend to further grow our business and to maintain and expand our position as an industry leader in the process.

**Businesses**

**Local Market Services**

The services we offer to real estate investors in local markets around the world range from client-critical best practice process services (such as property management) to sophisticated and complex transactional services (such as leasing) that maximize real estate values. The skill set required to succeed in this environment includes financial knowledge coupled with the delivery of market and property operating organizations, ongoing technology investment and strong cash controls as the business is a fiduciary for client funds. The revenue streams associated with process services have annuity-like characteristics and tend to be less impacted by underlying economic conditions. The revenue stream associated with the sophisticated and complex transactional services is generally transaction-specific and conditioned upon the successful completion of the transaction. We compete in this area with traditional real estate and property firms. We differentiate ourselves on the basis of qualities such as our local presence aligned with our global platform, our research capability, our technology platform and our ability to innovate by way of new products and services.

## Table of Contents

### **Occupier Services**

Our occupier services product offerings have leveraged our local market real estate services into best practice operations and process capabilities that we offer to corporate clients. The value added for these clients is the transformation of their real estate assets into an integral part of their core business strategies, delivered at more effective cost. The Firm's client relationship focus drives our business success, as delivery of one product successfully sells the next and subsequent services. The skill set required to succeed in this environment includes financial and project management, and for some products, more technical skills such as engineering. We compete in this area with traditional real estate and property firms.

We differentiate ourselves on the basis of qualities that include our integrated global platform, our research capability, our innovative technology platform and our ability to innovate through best practice products and services. Our strong strategic focus also provides a highly effective point of differentiation from our competitors. We have seen the demand for coordinated multi-national occupier services by global corporations increase, and we expect this trend to continue as these businesses refocus on core competencies. Consequently, we are focused on continuing to enhance our ability to deliver our services across all geographies globally in a seamless and coordinated fashion that best leverages our expertise for our clients' benefit.

### **Capital Markets**

Our capital markets product offerings include institutional property sales and acquisitions, real estate financings, private equity placements, portfolio advisory activities, and corporate finance advice and execution. The skill set required to succeed in this environment includes knowledge of real estate value and financial knowledge coupled with delivery of local market expertise as well as connections across geographic borders. Our investment banking services require client relationship skills and consulting capabilities as we act as our client's trusted advisor. The level of demand for these services is impacted by general economic conditions. Our fee structure is generally transaction-specific and conditioned upon the successful completion of the transaction. We compete with consulting and investment banking firms for corporate finance and capital markets transactions. We differentiate ourselves on the basis of qualities such as our global platform, our research capability, our technology platform and our ability to innovate as demonstrated through the creation of new products and services.

Because of the success we have had with our capital markets business, particularly in Europe and also with our global Hotels business, and because we expect the cross-border flow of real estate investments to remain strong, we are focused on enhancing our ability to provide capital markets services in an increasingly global fashion. This success leverages our regional market knowledge for clients who seek to benefit from a truly global capital markets platform.

### **Money Management**

LaSalle Investment Management provides money management services for large institutions, both in specialized funds and separate account vehicles, as well as for managers of institutional and, increasingly, retail real estate funds. Investing money on behalf of clients requires not just asset selection, but also asset value activities that enhance the asset's performance. The skill set required to succeed in this environment includes knowledge of real estate values, such as opportunity identification (research), individual asset selection (acquisitions), asset value creation (portfolio management) and investor relations. Our competitors in this area tend to be investment banks, fund managers and other financial services firms. They commonly lack the "on-the-ground" real estate expertise that our global market presence provides.

We are compensated for our services through a combination of recurring advisory fees that are asset-based, together with incentive fees based on underlying investment return to our clients, which are generally recognized when agreed upon events or milestones are reached, and equity earnings realized at the exit of individual investments within funds. We have been successful in transitioning the mix of our fees for this business to advisory fee revenue which acts more like an annuity. We also have increasingly been seeking to form alliances with distributors of real estate investment

funds to retail clients where we provide the real estate investment expertise. As a result of such efforts, we have been successful in attracting approximately \$2.2 billion to these funds, which exist in all three global regions. Additionally, our strengthened balance sheet and continued cash generation position us for expansion in co-investment activity, which we believe will accelerate our growth in assets under management.

### **Summary of Critical Accounting Policies and Estimates**

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. See Note 1 of the notes to consolidated financial statements for a summary of our significant accounting policies.

The preparation of our financial statements requires management to make certain critical accounting estimates that impact the stated amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting periods. These accounting estimates are based on management's judgment and are considered to be critical because of their significance to the financial statements and the possibility that future events may differ from current judgments, or that the use of different assumptions could result in materially different estimates. We review these estimates on a periodic basis to ensure reasonableness. Although actual amounts likely differ from such estimated amounts, we believe such differences are not likely to be material.

Table of Contents**Interim Period Accounting for Incentive Compensation**

An important part of our overall compensation package is incentive compensation, which is typically paid out to employees in the first quarter of the year after it is earned. In our interim financial statements we accrue for most incentive compensation based on the percentage of revenue and compensation costs recorded to date relative to forecasted revenue and compensation costs for the full year, as substantially all incentive compensation pools are based upon full year revenues and profits. As noted in "Interim Information" of Note 1 of the notes to the consolidated financial statements, quarterly revenues and profits for the first three quarters of the year historically have been substantially lower than in the fourth quarter of the year. The impact of this incentive compensation accrual methodology is that we have accrued smaller percentages of incentive compensation in each of the first three quarters of the year, compared to the percentage of our incentive compensation accrued in the fourth quarter. We adjust the incentive compensation accrual in those unusual cases where earned incentive compensation has been paid to employees. Incentive compensation pools that are not subject to the normal performance criteria are excluded from the standard accrual methodology and accrued for on a straight-line basis.

Certain employees receive a portion of their incentive compensation in the form of restricted stock units of our common stock. We recognize this compensation over the vesting period of these restricted stock units, which has the effect of deferring a portion of incentive compensation to later years. We recognize the benefit of deferring certain compensation under the stock ownership program in a manner consistent with the accrual of the underlying incentive compensation expense.

Given that individual incentive compensation awards are not finalized until after year end, we must estimate the portion of the overall incentive compensation pool that will qualify for this program. This estimation factors in the performance of the Company and individual business units, together with the target bonuses for qualified individuals. Then, when we determine, announce and pay incentive compensation in the first quarter of the year following that to which the incentive compensation relates, we true-up the estimated stock ownership program deferral and related amortization.

The table below sets forth the deferral estimated at year end, and the adjustment made in the first quarter of the following year to true-up the deferral and related amortization (\$ in millions):

	December 31, 2005	December 31, 2004
Deferral of compensation, net of related amortization expense	\$ 15.8	10.2
Decrease to deferred compensation in the first quarter of the following year	(0.3)	(0.9)

The table below sets forth the amortization expense related to the stock ownership program for the three and nine months ended September 30, 2006 and 2005 (\$ in millions):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Current compensation expense				
amortization for prior year programs	\$ 4.8	2.1	14.3	7.9
Current deferral net of related amortization	(0.7)	(5.7)	(13.6)	(10.2)



### **Accounting for Self-insurance Programs**

In our Americas business, and in common with many other American companies, we have chosen to retain certain risks regarding health insurance and workers' compensation rather than purchase third-party insurance. Estimating our exposure to such risks involves subjective judgments about future developments. We engage the services of an independent actuary on an annual basis to assist us in quantifying our potential exposure. Additionally, we supplement our traditional global insurance program by the use of a captive insurance company to provide professional indemnity insurance on a "claims made" basis. As professional indemnity claims can be complex and take a number of years to resolve we are required to estimate the ultimate cost of claims.

- **Health Insurance** - We self-insure our health benefits for all U.S.-based employees, although we purchase stop loss coverage on an annual basis to limit our exposure. We self-insure because we believe that on the basis of our historic claims experience, the demographics of our workforce and trends in the health insurance industry, we incur reduced expense by self-insuring our health benefits as opposed to purchasing health insurance through a third party. We engage an actuary who specializes in health insurance to estimate our likely full-year cost at the beginning of the year and expense this cost on a straight-line basis throughout the year. In the fourth quarter, we employ the same actuary to estimate the required reserve for unpaid health costs we would need at year-end.

Table of Contents

Given the nature of medical claims, it may take up to 24 months for claims to be processed and recorded. The reserve balance for the program related to 2006 is \$9.4 million at September 30, 2006.

The table below sets out certain information related to the cost of this program for the three and nine months ended September 30, 2006 and 2005 (\$ in millions):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Expense to Company	\$ 3.5	2.7	10.0	7.9
Employee contributions	0.9	0.7	2.7	1.9
Adjustment to prior year reserve	0.1	—	(0.2)	(0.5)
<b>Total program cost</b>	<b>\$ 4.5</b>	<b>3.4</b>	<b>12.5</b>	<b>9.3</b>

- **Workers' Compensation Insurance** - Given our belief, based on historical experience, that our workforce has experienced lower costs than is normal for our industry, we have been self-insured for worker's compensation insurance for a number of years. We purchase stop loss coverage to limit our exposure to large, individual claims. On a periodic basis we accrue using various state rates based on job classifications. On an annual basis in the third quarter, we engage an independent actuary who specializes in workers' compensation to estimate our exposure based on actual experience. Given the significant judgmental issues involved in this evaluation, the actuary provides us a range of potential exposure and we reserve within that range. We accrue the estimated adjustment to revenues for the differences between the actuarial estimate and our reserve on a periodic basis. The credits taken to revenue through the three months ended September 30, 2006 and 2005 were \$0.6 million and \$2.4 million, respectively. The credits taken to revenue through the nine months ended September 30, 2006 and 2005 were \$2.1 million and \$3.4 million, respectively.

The reserves, which can relate to multiple years, were \$8.1 million and \$6.5 million, as of September 30, 2006 and 2005, respectively.

- **Captive Insurance Company** - In order to better manage our global insurance program and support our risk management efforts, we supplement our traditional insurance program by the use of a wholly-owned captive insurance company to provide professional indemnity insurance coverage on a "claims made" basis. The level of risk retained by our captive is up to \$2.5 million per claim (dependent upon location) and up to \$12.5 million in the aggregate.

Professional indemnity insurance claims can be complex and take a number of years to resolve. Within our captive insurance company, we estimate the ultimate cost of these claims by way of specific claim reserves developed through periodic reviews of the circumstances of individual claims, as well as reserves against current year exposures on the basis of our historic loss ratio. The increase in the level of risk retained by the captive means we would expect that the amount and the volatility of our estimate of reserves will be increased over time. With respect to the consolidated financial statements, when a potential loss event occurs, management estimates the ultimate cost of the claims and accrues the related cost in accordance with SFAS 5, "Accounting for Contingencies."

The reserves estimated and accrued in accordance with SFAS 5, which relate to multiple years, were \$15.0 million and \$7.5 million, as of September 30, 2006 and 2005, respectively.

**Income Taxes**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and of operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Because of the global and cross-border nature of our business, our corporate tax position is complex. We generally provide for taxes in each tax jurisdiction in which we operate based on local tax regulations and rules. Such taxes are provided on net earnings and include the provision of taxes on substantively all differences between financial statement amounts and amounts used in tax returns, excluding certain non-deductible items and permanent differences.

Table of Contents

Our global effective tax rate is sensitive to the complexity of our operations as well as to changes in the mix of our geographic profitability, as local statutory tax rates range from 10% to 42% in the countries in which we have significant operations. We evaluate our estimated effective tax rate on a quarterly basis to reflect forecasted changes in:

- (i) Our geographic mix of income,
- (ii) Legislative actions on statutory tax rates,
- (iii) The impact of tax planning to reduce losses in jurisdictions where we cannot recognize the tax benefit of those losses, and
- (iv) Tax planning for jurisdictions affected by double taxation.

We continuously seek to develop and implement potential strategies and/or actions that would reduce our overall effective tax rate. We reflect the benefit from tax planning actions when we believe it is probable that they will be successful, which usually requires that certain actions have been initiated. We provide for the effects of income taxes on interim financial statements based on our estimate of the effective tax rate for the full year.

Based on our forecasted results for the full year, we have estimated an effective tax rate of 26.3% for 2006. We believe that this is an achievable rate due to the mix of our income and the impact of tax planning activities. For the nine months ended September 30, 2005, we used an effective tax rate of 25.4%; we ultimately achieved an effective tax rate of 25.9% for the year ended December 31, 2005.

**Items Affecting Comparability**

**Restructuring Charges (Credits)**

See Note 3 of the notes to consolidated financial statements for a discussion of restructuring charges (credits).

**LaSalle Investment Management Revenues**

Our money management business is in part compensated through the receipt of incentive fees where performance of underlying funds' investments exceeds agreed-to benchmark levels. Depending upon performance and the contractual timing of measurement periods with clients, these fees can be significant and vary substantially from period to period. In the second quarter of 2006, the Firm recognized a gross incentive fee in excess of \$100 million from a single client. The fee, determined from an independent third-party valuation of the related portfolio, was larger than usual due to the eight-year contractual measurement period, as well as outstanding performance execution by the Firm.

“Equity in earnings (losses) from real estate ventures” may also vary substantially from period to period for a variety of reasons, including as a result of: (i) impairment charges, (ii) realized gains on asset dispositions, or (iii) incentive fees recorded as equity earnings. The timing of recognition of these items may impact comparability between quarters, in any one year or compared to a prior year.

The comparability of these items can be seen in Note 2 to notes to consolidated financial statements and is discussed further in Segment Operating Results included herein.

**Foreign Currency**

We conduct business using a variety of currencies, but report our results in U.S. dollars, as a result of which our reported results may be positively or negatively impacted by the volatility of currencies against the U.S. dollar. This

volatility can make it more difficult to perform period-to-period comparisons of the reported U.S. dollar results of operations, as such results demonstrate a growth rate that might not have been consistent with the real underlying growth rate in the local operations. In order to provide more meaningful period-to-period comparisons of the reported results of operations in our discussion and analysis of financial condition and results of operations, we provide information about the impact of foreign currencies where we believe underlying growth rates in local operations are significantly different from results reported in U.S. dollars.

28

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Table of Contents**Seasonality**

Historically, other than for our Investment Management segment, our revenue, operating income and net earnings in the first three calendar quarters have been substantially lower than in the fourth quarter. This seasonality is due to a calendar-year-end focus on the completion of real estate transactions, which is consistent with the real estate industry generally. Our Investment Management segment earns performance fees on clients' returns on their real estate investments. Such performance fees are generally earned when assets are sold, the timing of which is geared towards the benefit of our clients and is therefore inherently unpredictable. Non-variable operating expenses, which are treated as expenses when they are incurred during the year, are relatively constant on a quarterly basis. As a result, the results for the periods ended September 30, 2006 and 2005 are not indicative of the results to be obtained for the full fiscal year.

**Results of Operations****Reclassifications**

During the third quarter of 2005, we reclassified certain charges (credits) presented within "Restructuring charges (credits)" in prior quarters for inclusion within "Compensation and benefits" or "Operating, administrative and other" expenses. Such reclassifications had no impact on consolidated total operating expenses or operating income (loss).

We report "Equity in earnings (losses) from real estate ventures" in the consolidated statement of earnings after "Operating income (loss)." However, for segment reporting we reflect "Equity in earnings (losses) from real estate ventures" within "Total revenue." See Note 2 of the notes to consolidated financial statements for "Equity in earnings (losses) from real estate ventures" reflected within segment revenues, as well as discussion of how the Chief Operating Decision Maker (as defined in Note 2) measures segment results with "Equity in earnings (losses) from real estate ventures" included in segment revenues.

**Three and Nine Months Ended September 30, 2006 Compared to Three and Nine Months Ended September 30, 2005**

Results reported in the tables below and throughout the Segment Operating Results are in millions of U.S. dollars.

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Increase (Decrease)	
Total revenue	\$ 462.3	\$ 326.4	\$ 135.9	42%
Compensation and benefits	313.7	211.1	102.6	49%
Operating, administrative and other	99.8	79.7	20.1	25%
Depreciation and amortization	11.5	8.3	3.2	38%
Restructuring	—	0.7	(0.7)	n.m.
Total operating expenses	425.0	299.8	125.2	42%
<b>Operating income</b>	<b>\$ 37.3</b>	<b>\$ 26.6</b>	<b>\$ 10.7</b>	

	Nine Months Ended	Nine Months Ended	Increase (Decrease)	
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	September 30, 2006	September 30, 2005		
Total revenue	\$ 1,309.2	\$ 891.6	\$ 417.6	47%
Compensation and benefits	863.3	592.8	270.5	46%
Operating, administrative and other	284.4	227.1	57.3	25%
Depreciation and amortization	31.9	25.0	6.9	28%
Restructuring	(0.7)	0.5	(1.2)	n.m.
Total operating expenses	1,178.9	845.4	333.5	39%
<b>Operating income</b>	<b>\$ 130.3</b>	<b>\$ 46.2</b>	<b>\$ 84.1</b>	

(n.m. - not meaningful; change greater than 100%)

All operating segments achieved robust increases in revenue for both the third quarter and year-to-date 2006 compared with the same periods of the prior year. Revenue for the third quarter of 2006 was \$462.3 million, an increase of 42%, while year-to-date revenue increased to \$1.31 billion, an increase of 47% over the prior year. Together, the acquisition of Spaulding & Slye and the significant incentive fee contributed 40% of the Firm's year-to-date increase over the prior year. Revenue for the third quarter of 2006 in the EMEA and Americas regions increased by 53% and 46%, respectively, compared with the same period of the prior year.

Table of Contents

Operating expenses were \$425.0 million for the third quarter of 2006 compared with \$299.8 million for the same period in 2005, an increase of 42%, and on a year-to-date basis an increase of 39% to \$1.18 billion. The increase in operating expenses was due to increased investments made across the regions and the Firm's acquisition activity, which during the third quarter included the RSP Group in Dubai and, earlier this year, the acquisitions of Spaulding & Slye, Rogers Chapman and The Littman Partnership. Also contributing to the increase were higher incentive compensation related to the Firm's strong performance, the costs associated with revenue-generating activities, and the geographic expansion both of offices and the global business platform.

**Segment Operating Results**

We manage and report our operations as four business segments:

- (i) Investment Management, which offers money management services on a global basis, and

The three geographic regions of Investor and Occupier Services ("IOS"):

- (ii) Americas,  
 (iii) Europe, Middle East and Africa ("EMEA") and  
 (iv) Asia Pacific.

The Investment Management segment provides money management services to institutional investors and high-net-worth individuals. Each geographic region offers our full range of Investor Services, Capital Markets and Occupier Services. The IOS business consists primarily of tenant representation and agency leasing, capital markets and valuation services (collectively "transaction services") and property management, facilities management, project and development management and construction management services (collectively "management services").

We have not allocated "Restructuring credits" to the business segments for segment reporting purposes; therefore, these credits are not included in the discussions below. Also, we continue to show "Equity in earnings (losses) from real estate ventures" within our revenue line for segment reporting, especially since it is a very integral part of our Investment Management segment.

**Investor and Occupier Services****Americas**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005		Increase (Decrease)
Revenue	\$ 150.4	\$ 103.3	\$ 47.1	46%
Operating expense	134.3	90.8	43.5	48%
Operating income	\$ 16.1	\$ 12.5	\$ 3.6	
	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005		Increase (Decrease)



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Revenue	\$	398.6	\$	271.2	\$	127.4	47%
Operating expense		375.5		256.0		119.5	47%
Operating income	\$	23.1	\$	15.2	\$	7.9	

In the Americas, revenue for the third quarter of 2006 was \$150.4 million, an increase of 46% over the prior year, while year-to-date revenue increased to \$398.6 million, an increase of 47% over the same period in 2005. Transaction revenue was up over 65% for both the quarter and year to date compared with 2005 due to an increased number of large transactions that closed in 2006. Management services revenue was up approximately 30% for the quarter and year to date over 2005.

Table of Contents

The current year's strong revenue performance has benefited from organizational changes made at the end of 2005. The Americas reoriented part of its operations to focus on "Markets" and "Accounts." The goal of the Markets organization is to maximize the firm's competitive position in its key local markets. The focus of the Accounts organization is on delivering services and strategic advice to large corporate clients. The Spaulding & Slye acquisition and new client wins in late 2005 also impacted the strong performance over the prior year.

Revenue in the Americas Hotels business was up 76% on a year-to-date basis compared with 2005. The increase was due to the closing of several significant transactions this year, and to the acquisition of a middle-market hotel broker and advisory firm in the second quarter of 2005.

Total operating expenses for both the quarter and year to date increased 48% and 47%, respectively, over the prior year as a result of continued investment activity with the strengthening of local market teams throughout the region. Expense growth also was driven by the Spaulding & Slye acquisition and by higher compensation costs associated with revenue-generating activities.

**EMEA**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Increase (Decrease)	
Revenue	\$ 169.7	\$ 110.7	\$ 59.0	53%
Operating expense	156.0	107.6	48.4	45%
Operating income	\$ 13.7	\$ 3.1	\$ 10.6	

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Increase (Decrease)	
Revenue	\$ 409.0	\$ 315.6	\$ 93.4	30%
Operating expense	395.0	314.4	80.6	26%
Operating income	\$ 14.0	\$ 1.2	\$ 12.8	

In EMEA, third-quarter revenue increased 53% to \$169.7 million over the same quarter in 2005, and on a year-to-date basis grew 30% to \$409.0 million. Transaction services revenue was up 63% for the quarter and 38% year to date. Third-quarter 2006 revenue was driven by capital markets, which was up 87%, with revenue in agency leasing and advisory services up 34% and 47%, respectively, compared with the prior year. Revenue on a year-to-date basis for capital markets increased 72% with agency leasing and advisory services up approximately 20% each as the leasing markets in the region continue to recover.

Germany and France continued to gain momentum into the third quarter and experience further strong growth driven by improved market conditions and investor interest along with management actions taken in both countries. Germany's revenue was up 90% for the third quarter and up 66% year to date compared with 2005, with capital markets activity contributing the majority of the growth. Both capital markets and agency leasing drove the growth in France's revenue, which nearly tripled for the third quarter and doubled year to date, compared with 2005. Favorable trends have also continued in other markets, with year-to-date revenue up 16% in the United Kingdom and up 54% in

Central and Eastern Europe, including Russia, over the prior year. Year-to-date revenue of the EMEA Hotels business increased over 60% compared to the prior year.

Operating expenses in the third quarter of 2006 increased by 45%, and by 26% on a year-to-date basis. The increase was driven by investments in staff to service clients, and drive growth in market share, as well as incentive compensation associated with improved results. Operating income on a year-to-date basis improved significantly in 2006 to \$14.0 million compared with \$1.2 million in 2005.

During the quarter, the Firm expanded into the Middle East with the acquisition of RSP Group, a leading Dubai-based team of 30 professionals providing strategic real estate investment and advisory services to private and institutional investors and developers.

Table of Contents**Asia Pacific**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005		Increase (Decrease)
Revenue	\$ 78.4	\$ 63.3	\$ 15.1	24%
Operating expense	80.3	62.5	17.8	28%
Operating income (loss)	\$ (1.9)	\$ 0.8	\$ (2.7)	

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005		Increase (Decrease)
Revenue	\$ 212.7	\$ 180.8	\$ 31.9	18%
Operating expense	212.4	173.7	38.7	22%
Operating income	\$ 0.3	\$ 7.1	\$ (6.8)	

Third-quarter revenue for the Asia Pacific region increased 24% to \$78.4 million and, on a year-to-date basis, increased 18% to \$212.7 million. Revenue growth in the third quarter was driven primarily by transaction services, up 27%, and management services, up 15%. Geographically, the third-quarter and year-to-date increases in revenue over the prior year were led by the growth markets of China, Japan, India and Korea, which as a group had increased revenue of 54% and 27%, respectively. Australia continued its steady growth throughout the current year compared with the prior year, as revenue for both the third quarter and year to date increased 20%. Following very strong results in 2005, the Hong Kong business has maintained its performance levels and its leading market position.

The increase in operating expenses for both third quarter and year-to-date 2006 was primarily the result of continued investment activity to expand the geographic platform, service capabilities and infrastructure throughout the region. The Firm remains committed to future growth by expanding existing offices and adding new offices across the region. During the third quarter, the region incurred approximately \$1.6 million of transition expenses to outsource the management of its IT infrastructure, call centers and application development. This will enable faster response to client requests and better support for future regional growth. The 2005 year-to-date operating expenses included a credit of \$2.4 million received from a litigation settlement.

**Investment Management**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005		Increase (Decrease)
Revenue	\$ 64.4	\$ 49.5	\$ 14.9	30%
Equity earnings	0.5	2.2	(1.7)	(77)%
Total revenue	\$ 64.9	\$ 51.7	\$ 13.2	26%
Operating expense	\$ 54.7	\$ 38.3	\$ 16.4	43%
Operating income	\$ 10.2	\$ 13.4	\$ (3.2)	

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	Nine Months Ended		Nine Months Ended		
	September 30, 2006		September 30, 2005		Increase (Decrease)
Revenue	\$	292.0	\$	124.9	\$ 167.1 n.m.
Equity earnings		7.3		5.9	1.4 24%
Total revenue	\$	299.3	\$	130.8	\$ 168.5 n.m.
Operating Expense	\$	197.7	\$	101.4	\$ 96.3 95%
Operating income	\$	101.6	\$	29.4	\$ 72.2

(n.m. - not meaningful; change greater than 100%)

Table of Contents

LaSalle Investment Management's third-quarter 2006 revenue increased by 26% to \$64.9 million compared with \$51.7 million in 2005, while year-to-date revenue more than doubled to \$299.3 million from \$130.8 million.

Advisory fees for the third quarter 2006 increased 40% to \$45.6 million, compared with \$32.6 million in 2005, and on a year-to-date basis increased 36% to \$126.9 million. The growth in this annuity business was principally due to the increase in assets under management. Total investments related to this activity also increased, as the firm's co-investment capital totaled \$125.6 million at the end of the third quarter of 2006, compared with \$83.8 million in the prior year.

Incentive fees remained strong in the third quarter and were comparable to the prior year. The majority of the year-to-date increase in incentive fees is due to the single large incentive fee earned in the second quarter of 2006. LaSalle Investment Management's assets under management grew to almost \$40 billion at the end of the third quarter of 2006, compared with \$29 billion a year ago.

### **Performance Outlook**

Supported by ongoing favorable market conditions, we continue to focus on our growth initiatives and disciplined investment strategy across our diverse global platform. The Firm intends to maintain these efforts in 2007 in order to continue to generate growth in our core operations beyond 2006. In addition to over \$180 million that the Firm has spent so far in 2006 for acquisitions, strategic investments for the full-year 2006 are anticipated to be \$25 million, of which \$15 million has been spent year to date.

### **Consolidated Cash Flows**

#### **Cash Flows From Operating Activities**

During the nine months ended September 30, 2006, cash flows provided by operating activities totaled \$154.2 million compared to \$11.2 million in the first three quarters of 2005. Cash flows from operating activities can be further divided into \$164.4 million of cash generated from earnings, compared to \$79.3 million in 2005, and \$10.2 million of net cash outflows from changes in working capital, compared to \$68.0 million in 2005. Not only is the \$85.1 million increase in cash generated from earnings largely a result of increased net income, but the \$57.8 million decrease in net cash outflows from changes in working capital as compared to the prior year is also driven by increased business activity in 2006. Significant increases in business activity in the current year are reflected in increases in trade receivables, accounts payable, accrued compensation, and other liabilities from December 31, 2005 to September 30, 2006, whereas each of those balances tended to decrease from December to September in previous years as a reflection of the seasonality of the business. In addition to organic growth, increases in business activity are also reflected in significant LaSalle Investment Management incentive fees and growth from business acquisitions in 2006.

#### **Cash Flows From Investing Activities**

We used \$269.0 million of cash in investing activities in the nine months ended September 30, 2006, which was an increase in cash used of \$229.9 million from the \$39.1 million used in investing activities in the first nine months of 2005. The increase in cash used is principally due to the Spaulding & Slye, Rogers Chapman and RSP Group acquisitions; also contributing to the change are increases in capital contributions and advances to real estate ventures, as well as net capital additions, as compared to the first nine months of 2005.

#### **Cash Flows From Financing Activities**

Financing activities provided \$120.2 million of net cash in the first nine months of 2006 compared with \$23.7 million in the same period of 2005. The \$96.5 million increase in cash provided by financing activities over 2005 was driven by \$270.3 million more in borrowings under credit facilities in the current year, largely to pay for business acquisitions, but also for increased co-investment funding to support growth in the money management business and capital expenditures greater than historical levels. The additional borrowings were partially offset by \$177.3 million more of debt repayments in the first nine months of 2006 compared to the same period in 2005.

Table of Contents

**Liquidity and Capital Resources**

Historically, we have financed our operations, acquisitions and co-investment activities with internally generated funds, issuances of our common stock and borrowings under our credit facilities. On March 1, 2006, we renegotiated our unsecured revolving credit facility, increasing the facility to \$450 million and extending the term to March 2011. We also have capacity to borrow up to an additional \$41.7 million under local overdraft facilities. Pricing on the \$450 million facility ranges from LIBOR plus 55 basis points to LIBOR plus 130 basis points. As of September 30, 2006, our pricing on the revolving credit facility was LIBOR plus 55 basis points. This facility will continue to be utilized for working capital needs, investments, capital expenditures, and acquisitions. Interest and principal payments on outstanding borrowings against the facility will fluctuate based on our level of borrowing needs.

As of September 30, 2006, we had \$158.0 million outstanding under the revolving credit facility. The average borrowing rate on the revolving credit agreement was 5.2% in the third quarter of 2006, as compared with an average borrowing rate of 3.9% in the third quarter of 2005. We also had short-term borrowings (including capital lease obligations) of \$19.2 million outstanding at September 30, 2006, with \$13.6 million of those borrowings attributable to local overdraft facilities.

With respect to the revolving credit facility, we must maintain a consolidated net worth of at least \$450 million, a leverage ratio not exceeding 3.25 to 1, and a minimum interest coverage ratio of 2.5 to 1. Additionally, we are restricted from, among other things, incurring certain levels of indebtedness to lenders outside of the facility and disposing of a significant portion of our assets. Lender approval or waiver is required for certain levels of co-investment and acquisition. We are in compliance with all covenants as of September 30, 2006.

The revolving credit facility bears variable rates of interest based on market rates. We are authorized to use interest rate swaps to convert a portion of the floating rate indebtedness to a fixed rate; however, none were used during 2005 or the first nine months of 2006, and none were outstanding as of September 30, 2006.

We believe that the revolving credit facility, together with local borrowing facilities and cash flow generated from operations will provide adequate liquidity and financial flexibility to meet our needs to fund working capital, capital expenditures, co-investment activity, share repurchases and dividend payments.

With respect to our co-investment activity, we had total investments and loans of \$125.6 million as of September 30, 2006 in approximately 30 separate property or real estate fund co-investments. Within this \$125.6 million, loans of \$3.3 million to real estate ventures bear interest rates ranging from 7.25% to 8.0% and are to be repaid by 2008.

We utilize two investment vehicles to facilitate the majority of our co-investment activity. LaSalle Investment Company I ("LIC I") is a series of four parallel limited partnerships which serve as our investment vehicle for substantially all co-investment commitments made through December 31, 2005. LaSalle Investment Company II ("LIC II"), formed in January 2006, is comprised of two parallel limited partnerships which serve as our investment vehicle for most new co-investments. LIC I and LIC II invest in certain real estate ventures that own and operate commercial real estate. We have an effective 47.85% ownership interest in LIC I, and an effective 48.72% ownership interest in LIC II; primarily institutional investors hold the remaining 52.15% and 51.28% interests in LIC I and LIC II, respectively. Our investments in LIC I and LIC II are accounted for under the equity method of accounting in the accompanying consolidated financial statements. Additionally, a non-executive Director of Jones Lang LaSalle is an investor in LIC I on equivalent terms to other investors.

At September 30, 2006, LIC I and LIC II have unfunded capital commitments of \$146.5 million and \$153.6 million, respectively, of which our 47.85% and 48.72% shares are \$70.1 million and \$74.8 million, respectively, for future fundings of co-investments. These \$70.1 million and \$74.8 million commitments are part of our maximum potential



unfunded commitments to LIC I and LIC II at September 30, 2006, which are euro 78.5 million (\$99.5 million) and \$338.4 million, respectively.

LIC I's and LIC II's exposures to liabilities and losses of the ventures are limited to their existing capital contributions and remaining capital commitments. We expect that LIC I will draw down on our commitment over the next three to five years to satisfy its existing commitments to underlying funds, and that LIC II will draw down on our commitment over the next six to eight years as it enters into new commitments. Our Board of Directors has endorsed the use of our co-investment capital in particular situations to control or bridge finance existing real estate assets or portfolios to seed future investments within LIC II. The purpose is to accelerate capital raising and growth in assets under management. Approvals for such activity are handled consistently with those of the Firm's co-investment capital.

As of September 30, 2006, LIC I maintains a euro 35 million (\$44.4 million) revolving credit facility (the "LIC I Facility"), and LIC II maintains a \$200 million revolving credit facility (the "LIC II Facility"), principally for their working capital needs. The capacity in the LIC II Facility contemplates potential bridge financing opportunities. Each facility contains a credit rating trigger (related to the credit ratings of one of LIC I's investors and one of LIC II's investors, who are unaffiliated with Jones Lang LaSalle) and a material adverse condition clause. If either of the credit rating trigger or the material adverse condition clauses become triggered, the facility to which that condition relates would be in default and would need to be repaid. Such a condition would require us to fund our pro-rata share of the then outstanding balance on the related facility, which is the limit of our liability. The maximum exposure to Jones Lang LaSalle, assuming that the LIC I Facility were fully drawn, would be euro 16.7 million (\$21.2 million); assuming that the LIC II Facility were fully drawn, the maximum exposure to Jones Lang LaSalle would be \$97.4 million. Each exposure is included within and cannot exceed our maximum potential unfunded commitments to LIC I of euro 78.5 million (\$99.5 million) and to LIC II of \$338.4 million discussed above. As of September 30, 2006, LIC I had euro 8.2 million (\$10.4 million) of outstanding borrowings on the LIC I Facility, and LIC II had \$3.8 million of outstanding borrowings on the LIC II Facility.

Table of Contents

Exclusive of our LIC I and LIC II commitment structures, we have potential obligations related to unfunded commitments to other real estate ventures, the maximum of which is \$2.9 million at September 30, 2006.

We expect to continue to pursue co-investment opportunities with our real estate money management clients in the Americas, EMEA and Asia Pacific, as co-investment remains very important to the continued growth of Investment Management. The net co-investment funding for 2006 is anticipated to be between \$50 and \$60 million (planned co-investment less return of capital from liquidated co-investments).

We repurchased 401,900 shares in the first nine months of 2006 at an average price of \$73.87 per share under a share repurchase program approved by our Board of Directors on September 15, 2005. Under our current share repurchase program, we are authorized to repurchase up to 2,000,000 shares, of which 1,021,100 total shares have been repurchased through September 30, 2006. The repurchase of shares is primarily intended to offset dilution resulting from both stock and stock option grants made under our existing stock plans. Given that shares repurchased under each of the programs are not cancelled, but are held by one of our subsidiaries, we include them in our equity account. However, these shares are excluded from our share count for purposes of calculating earnings per share. We have repurchased a total of 4,349,651 shares since the first repurchase program approved by our Board of Directors on October 30, 2002.

The Company announced on April 19, 2006 that its Board of Directors declared a semi-annual cash dividend of \$0.25 per share of common stock. The dividend was paid on June 15, 2006, to holders of record at the close of business on May 15, 2006. The Company also announced on October 31, 2006 that its Board of Directors declared a semi-annual dividend of \$0.35 per share of common stock. The dividend payment will be made on December 15, 2006, to holders of record at the close of business on November 15, 2006. In each case, a dividend-equivalent in the same amount was paid, or will be paid, simultaneously on outstanding but unvested shares of restricted stock units granted under the SAIP or in lieu of certain cash bonus payments under our Stock Ownership Plan. There can be no assurance that future dividends will be declared since the actual declaration of future dividends, and the establishment of record and payment dates, remains subject to final determination by the Company's Board of Directors.

Table of Contents

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

**Market and Other Risk Factors**

**Market Risk**

The principal market risks (namely, the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- Interest rates on our multi-currency credit facility; and
- Foreign exchange risks

In the normal course of business, we manage these risks through a variety of strategies, including the use of hedging transactions using various derivative financial instruments such as foreign currency forward contracts. We enter into derivative instruments with high credit quality counterparties and diversify our positions across such counterparties in order to reduce our exposure to credit losses. We do not enter into derivative transactions for trading or speculative purposes.

**Interest Rates**

We centrally manage our debt, considering investment opportunities and risks, tax consequences and overall financing strategies. We are primarily exposed to interest rate risk on our revolving multi-currency credit facility that is available for working capital, investments, capital expenditures and acquisitions. Our average outstanding borrowings under the revolving credit facility were \$206.6 million during the three months ended September 30, 2006, and the effective interest rate on that facility was 5.2%. As of September 30, 2006, we had \$158.0 million outstanding under the revolving credit facility. This facility bears a variable rate of interest based on market rates. The interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs. To achieve this objective, in the past we have entered into derivative financial instruments such as interest rate swap agreements when appropriate and may do so in the future. We entered into no such agreements in 2005 or the first nine months of 2006, and we had no such agreements outstanding at September 30, 2006.

**Foreign Exchange**

Foreign exchange risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. Our revenues outside of the United States totaled 53% and 67% of our total revenues for the nine months ended September 30, 2006 and 2005, respectively. Operating in international markets means that we are exposed to movements in foreign exchange rates, primarily the British pound (17% of revenues for the nine months ended September 30, 2006) and the euro (16% of revenues for the nine months ended September 30, 2006).

We mitigate our foreign currency exchange risk principally by establishing local operations in the markets we serve and invoicing customers in the same currency as the source of the costs. The British pound expenses incurred as a result of our EMEA region headquarters being located in London act as a partial operational hedge against our translation exposure to British pounds.

We enter into forward foreign currency exchange contracts to manage currency risks associated with intercompany loan balances. At September 30, 2006, we had forward exchange contracts in effect with a gross notional value of \$326.4 million (\$310.8 million on a net basis) with a market and carrying loss of \$0.9 million. The carrying loss is offset by a carrying gain in associated intercompany loans such that the net impact to earnings is not significant.

**Disclosure of Limitations**

As the information presented above includes only those exposures that exist as of September 30, 2006, it does not consider those exposures or positions which could arise after that date. The information represented herein has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate and foreign currency fluctuations will depend on the exposures that arise during the period, the hedging strategies at the time and interest and foreign currency rates.

For other risk factors inherent in our business, see Item 1A. Risk Factors in our 2005 Annual Report on Form 10-K.

Table of Contents

**Item 4. Controls and Procedures**

Jones Lang LaSalle (the Company) has established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to the members of senior management and the Board of Directors.

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Part II****Item 1. Legal Proceedings**

See Note 10 of the notes to consolidated financial statements for discussion of the Company's legal proceedings.

**Item 2. Share Repurchases**

The following table provides information with respect to approved share repurchase programs for Jones Lang LaSalle:

	Total number of shares purchased	Average price paid per share (1)	Cumulative number of shares purchased as part of publicly announced plan	Shares remaining to be purchased under plan (2)
January 1, 2006 - January 31, 2006	1,186	\$ 49.63	620,386	1,379,614
February 1, 2006 - February 28, 2006	50,000	\$ 68.08	670,386	1,329,614
March 1, 2006 - March 31, 2006	73,714	\$ 69.04	744,100	1,255,900
April 1, 2006 - April 30, 2006	—	—	744,100	1,255,900
May 1, 2006 - May 31, 2006	—	—	744,100	1,255,900
June 1, 2006 - June 30, 2006	155,000	\$ 75.38	899,100	1,100,900
July 1, 2006 - July 31, 2006	—	—	899,100	1,100,900
August 1, 2006 - August 31, 2006	122,000	\$ 77.49	1,021,100	978,900
September 1, 2006 - September 30, 2006	—	—	1,021,100	978,900
<b>Total</b>	<b>401,900</b>	<b>\$ 73.87</b>		

(1) Total average price paid per share is a weighted average for the nine month period.

(2) Since October 2002, our Board of Directors has approved four share repurchase programs. Each succeeding program has replaced the prior repurchase program, such that the program approved on September 15, 2005 is the only repurchase program in effect as of September 30, 2006. Board approval allows for purchase of our outstanding common stock in the open market and in privately negotiated transactions. The repurchase of shares is primarily intended to offset dilution resulting from both stock and stock option grants made under our existing stock plans. Given that shares repurchased under each of the programs are not cancelled, but are held by one of our subsidiaries, we include them in our equity account. However, these shares are excluded from our share count for purposes of calculating earnings per share. The following table details the activities for each of our approved share repurchase programs:

38

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Table of Contents

Repurchase Plan Approval Date	Shares Approved for Repurchase	Shares Repurchased through September 30, 2006
October 30, 2002	1,000,000	700,000
February 27, 2004	1,500,000	1,500,000
November 29, 2004	1,500,000	1,128,551
September 15, 2005	2,000,000	1,021,100
		4,349,651

**Item 5. Other Information****Corporate Governance**

Our policies and practices reflect corporate governance initiatives that we believe comply with the listing requirements of the New York Stock Exchange, on which our common stock is traded, the corporate governance requirements of the Sarbanes-Oxley Act of 2002 as currently in effect, various regulations issued by the United States Securities and Exchange Commission and certain provisions of the General Corporation Law in the State of Maryland, where Jones Lang LaSalle is incorporated.

We maintain a corporate governance section on our public website which includes key information about our corporate governance initiatives, such as our Corporate Governance Guidelines, Charters for the three Committees of our Board of Directors, a Statement of Qualifications of Members of the Board of Directors and our Code of Business Ethics. The Board of Directors regularly reviews corporate governance developments and modifies our Guidelines and Charters as warranted. The corporate governance section can be found on our website at [www.joneslanglasalle.com](http://www.joneslanglasalle.com) by clicking “Investor Relations” and then “Board of Directors and Corporate Governance.”

**Corporate Officers**

The names and titles of our corporate executive officers are as follows:

Global Executive Committee

Colin Dyer  
Chief Executive Officer and President

Lauralee E. Martin  
Executive Vice President, Chief Operating and Financial Officer

Peter A. Barge  
Chief Executive Officer, Asia Pacific

Alastair Hughes  
Chief Executive Officer, EMEA

Peter C. Roberts



Chief Executive Officer, Americas

Lynn C. Thurber  
Chief Executive Officer, LaSalle Investment Management

Additional Global Corporate Officers

Brian P. Hake  
Treasurer

James S. Jasionowski  
Director of Tax

39

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Table of Contents

David A. Johnson  
Chief Information Officer

Molly A. Kelly  
Chief Marketing and Communications Officer

Mark J. Ohringer  
General Counsel and Corporate Secretary

Marissa R. Prizant  
Director of Internal Audit

Nazneen Razi  
Chief Human Resources Officer

Stanley Stec  
Controller

We previously announced that Lynn C. Thurber will retire from her position as Chief Executive Officer of LaSalle Investment Management effective December 31, 2006. Effective January 1, 2007, she will take the role of Chairman of LaSalle Investment Management and Jeff A. Jacobson will succeed her as Chief Executive Officer of LaSalle Investment Management.

**Cautionary Note Regarding Forward-Looking Statements**

Certain statements in this filing and elsewhere (such as in reports, other filings with the United States Securities and Exchange Commission, press releases, presentations and communications by Jones Lang LaSalle or its management and written and oral statements) regarding, among other things, future financial results and performance, achievements, plans and objectives, dividend payments and share repurchases may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause Jones Lang LaSalle's actual results, performance, achievements, plans and objectives to be materially different from any of the future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements.

We discuss those risks, uncertainties and other factors in (i) our Annual Report on Form 10-K for the year ended December 31, 2005 in Item 1A. Risk Factors; Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 7A. Quantitative and Qualitative Disclosures About Market Risk; Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements; and elsewhere, (ii) in this Quarterly Report on Form 10-Q in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 3. Quantitative and Qualitative Disclosures About Market Risk; and elsewhere, and (iii) the other reports we file with the United States Securities and Exchange Commission. Important factors that could cause actual results to differ from those in our forward-looking statements include (without limitation):

- The effect of political, economic and market conditions and geopolitical events;
- The logistical and other challenges inherent in operating in numerous different countries;
  - The actions and initiatives of current and potential competitors;
- The level and volatility of real estate prices, interest rates, currency values and other market indices;
  - The outcome of pending litigation; and

- The impact of current, pending and future legislation and regulation.

Moreover, there can be no assurance that future dividends will be declared since the actual declaration of future dividends, and the establishment of record and payment dates, remain subject to final determination by the Company's Board of Directors.

Accordingly, we caution our readers not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. Jones Lang LaSalle expressly disclaims any obligation or undertaking to update or revise any forward-looking statements to reflect any changes in events or circumstances or in its expectations or results.

Table of Contents

**Signature**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 8th day of November, 2006.

**JONES LANG LASALLE INCORPORATED**

/s/ Lauralee E. Martin

**By: Lauralee E. Martin**

*Executive Vice President and Chief Operating and  
Financial Officer*

*(Authorized Officer and Principal Financial Officer)*

Table of Contents

**Item 6.**

**Exhibits**

**Exhibit  
Number**

**Description**

10.1\* Restated Jones Lang LaSalle Incorporated Stock Ownership Program description under the Amended and Restated Stock Award and Incentive Plan

10.2\* Letter Agreement between Lynn Thurber and Jones Lang LaSalle Incorporated dated as of September 5, 2006

31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.