JONES LANG LASALLE INC
Form 10-Q
May 09, 2006

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2006

Or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 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	**60601**
(Address of principal executive offices)	(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 x No o

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 x Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of the registrant's common stock (par value $0.01) as of the close of business on April 28, 2006 was 35,786,691, which includes 4,072,651 shares held by a subsidiary of the registrant.

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Part I **Financial Information**
Item 1. **Financial Statements**

JONES LANG LASALLE INCORPORATED
Consolidated Balance Sheets
March 31, 2006 and December 31, 2005
($ in thousands, except share data)

Assets		March 31, 2006 (unaudited)	December 31, 2005
Current assets:			
Cash and cash equivalents	$	30,503	28,658
Trade receivables, net of allowances of $7,665 and $5,551		370,435	415,087
Notes and other receivables		20,152	15,231
Prepaid expenses		21,141	22,442
Deferred tax assets		23,679	35,816
Other assets		12,240	13,864
Total current assets		478,150	531,098
Property and equipment, net of accumulated depreciation of $160,503 and $158,064		83,834	82,186
Goodwill, with indefinite useful lives, net of accumulated amortization of $37,869 and $37,450		480,486	335,731
Identified intangibles, with finite useful lives, net of accumulated amortization of $47,763 and $45,360		43,185	4,391
Investments in real estate ventures		86,545	88,710
Long-term receivables, net		22,304	20,931
Deferred tax assets		70,130	59,262
Other assets, net		28,978	22,460
	$	**1,293,612**	**1,144,769**
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$	123,491	155,741
Accrued compensation		162,264	300,847
Short-term borrowings		14,627	18,011
Deferred tax liabilities		3,296	400
Deferred income		29,479	20,823
Other liabilities		19,507	26,813
Total current liabilities		352,664	522,635
Noncurrent liabilities:			
Credit facilities		267,532	26,697
Deferred tax liabilities		3,099	3,079
Deferred compensation		25,171	15,988
Minimum pension liability		17,024	16,753
Deferred business acquisition obligations		31,518	—
Other		34,474	23,614
Total liabilities		731,482	608,766

Commitments and contingencies			
Stockholders’ equity:			
Common stock, $.01 par value per share, 100,000,000 shares authorized; 35,756,923 and 35,199,744 shares issued and outstanding		358	352
Additional paid-in capital		631,921	606,000
Retained earnings		104,702	100,142
Stock held by subsidiary		(141,343)	(132,791)
Stock held in trust		(996)	(808)
Accumulated other comprehensive loss		(32,512)	(36,892)
Total stockholders’ equity		562,130	536,003
	$	**1,293,612**	**1,144,769**

See accompanying notes to consolidated financial statements.

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JONES LANG LASALLE INCORPORATED
Consolidated Statements of Earnings
For the Three Months Ended March 31, 2006 and 2005
($ in thousands, except share data) (unaudited)

		Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenue	$	337,098	240,176
Operating expenses:			
Compensation and benefits		231,246	172,126
Operating, administrative and other		87,663	70,022
Depreciation and amortization		9,976	8,310
Restructuring credits		(501)	—
Operating expenses		328,384	250,458
Operating income (loss)		8,714	(10,282)
Interest expense, net of interest income		3,209	330
Equity in losses from real estate ventures		(944)	(892)
Income (loss) before provision for income taxes		4,561	(11,504)
Provision (benefit) for income taxes		1,181	(2,922)
Net income (loss) before cumulative effect of change in accounting principle		3,380	(8,582)
Cumulative effect of change in accounting principle, net of tax		1,180	—
Net income (loss)	**$**	**4,560**	**(8,582)**
Basic earnings (loss) per common share before cumulative effect of change in accounting principle		0.10	(0.27)
Cumulative effect of change in accounting principle, net of tax		0.04	—
Basic earnings (loss) per common share	$	0.14	(0.27)
Basic weighted average shares outstanding		31,511,880	31,268,640
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle		0.10	(0.27)
Cumulative effect of change in accounting principle, net of tax		0.04	—
Diluted earnings (loss) per common share	**$**	**0.14**	**(0.27)**
Diluted weighted average shares outstanding		33,681,263	31,268,640

See accompanying notes to consolidated financial statements.

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JONES LANG LASALLE INCORPORATED
Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2006
($ in thousands, except share data) (unaudited)

	Common Stock Shares (1)	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Stock Held by Subsidiary	Shares Held in Trust and Other	Accumulated Other Comprehensive 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	—	—	—	4,560	—	—	—	4,560
Shares issued under stock compensation programs	557,179	6	12,285	—	—	—	—	12,291
Tax benefits of vestings and exercises	—	—	8,876	—	—	—	—	8,876
Amortization of stock compensation	—	—	4,760	—	—	—	—	4,760
Shares acquired by subsidiary (1)	—	—	—	—	(8,552)	—	—	(8,552)
Stock held in trust	—	—	—	—	—	(188)	—	(188)
Foreign currency translation adjustments	—	—	—	—	—	—	4,380	4,380
Balances at March 31, 2006	35,756,923	$ 358	631,921	104,702	(141,343)	(996)	(32,512)	$ 562,130

(1) Shares repurchased under our share repurchase programs are not cancelled, but are held by one of our subsidiaries. The 4,072,651 shares we have repurchased through March 31, 2006 are included in the 35,756,923 shares total of our common stock account, but are deducted from our share count for purposes of calculating earnings (loss) per share.

See accompanying notes to consolidated financial statements.

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JONES LANG LASALLE INCORPORATED
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2006 and 2005
($ in thousands) (unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Cash flows from operating activities:		
Cash flows from earnings:		
Net income (loss)	$ 4,560	(8,582)
Reconciliation of net income (loss) to net cash provided by earnings:		
Cumulative effect of change in accounting principle, net of tax	(1,180)	—
Depreciation and amortization	9,976	8,310
Equity in losses from real estate ventures	944	892
Operating distributions from real estate ventures	261	684
Provision for loss on receivables and other assets	2,734	1,077
Amortization of deferred compensation	7,842	5,350
Amortization of debt issuance costs	217	202
Net cash provided by earnings	25,354	7,933
Cash flows from changes in working capital:		
Receivables	35,623	56,124
Prepaid expenses and other assets	1,894	(9,760)
Deferred tax assets, net	4,185	3,941
Excess tax benefits from share-based payment arrangements	(8,876)	—
Accounts payable, accrued liabilities and accrued compensation	(145,166)	(145,073)
Net cash flows from changes in working capital	(112,340)	(94,768)
Net cash used in operating activities	(86,986)	(86,835)
Cash flows from investing activities:		
Net capital additions - property and equipment	(8,401)	(4,138)
Business acquisition	(152,350)	—
Capital contributions and advances to real estate ventures	(7)	(3,779)
Distributions, repayments of advances and sale of investments	1,417	102
Net cash used in investing activities	(159,341)	(7,815)
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	421,672	217,562
Repayments of borrowings under credit facilities	(185,924)	(127,766)
Shares repurchased for payment of employee taxes on stock awards	(252)	(706)
Shares repurchased under share repurchase program	(8,740)	(15,249)
Excess tax benefits from share-based payment arrangements	8,876	—
Common stock issued under stock option plan and stock purchase programs	12,540	18,607
Net cash provided by financing activities	248,172	92,448
Net increase (decrease) in cash and cash equivalents	1,845	(2,202)

Cash and cash equivalents, January 1		28,658	30,143
Cash and cash equivalents, March 31	**$**	**30,503**	**27,941**
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$	2,548	258
Income taxes, net of refunds		12,892	6,787

See accompanying notes to consolidated financial statements.

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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 enc 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), 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 March 31, 2006 and for the three months ended March 31, 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, our revenue, operating income and net earnings in the first three calendar quarters are substantially lower than in the fourth quarter. Other than for the Investment Management segment, 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. The 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. 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 March 31, 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 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.

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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 Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), 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 $151.4 million and $112.5 million for the three months ended March 31, 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")
· 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 (“APB”) 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.

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 (“SFAS”) 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 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.

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

Business Combinations, Goodwill and Other Intangible Assets

We apply Statement of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS 141”), 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 No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), 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 that are 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 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 2005 evaluation was that the fair value of each reporting unit exceeded its carrying amount, and therefore we did not recognize an impairment loss.

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 No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"). 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.

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Effective January 1, 2006, we account for stock-based compensation in accordance with SFAS No. 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 three month period ended March 31, 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.

Earnings (Loss) Per Share

Earnings (loss) per share is calculated by dividing net income (loss) by weighted average shares outstanding. For the three months ended March 31, 2006 and 2005, we calculated basic earnings (loss) per common share based on basic weighted average shares outstanding of 31.5 million and 31.3 million, respectively, and calculated diluted earnings (loss) per common share based on diluted weighted average shares outstanding of 33.7 million and 31.3 million, respectively. As a result of the net losses incurred for the first quarter of 2005, the calculation of diluted weighted average shares outstanding does not give effect to common stock equivalents in that period, since to do so would be anti-dilutive.

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 4,072,651 or 2,640,200 shares that had been repurchased as of March 31, 2006 and 2005, respectively, and which are held by one of our subsidiaries. See Part II, Item 2. Share Repurchases for additional information.

Comprehensive Income (Loss)

For the three months ended March 31, 2006 and 2005, comprehensive income (loss) was as follows ($ in thousands):

		2006	2005
Net income (loss)	$	4,560	(8,582)
Other comprehensive income (loss):			
Foreign currency translation adjustments		4,380	(9,119)
Comprehensive income (loss)	**$**	**8,940**	**(17,701)**

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) above. 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.

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New Accounting Standards

Accounting for “Share-Based” Compensation
Effective January 1, 2006, we account for share-based compensation in accordance with SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”). See further discussion of the new standard under “Stock-based Compensation” above and in Note 6.

Accounting for General Partner Interests in a Limited Partnership
In June 2005, the FASB ratified EITF 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 presumes that a general partner controls a limited partnership, and therefore should consolidate the limited partnership in its financial statements. To overcome the presumption of control, and thereby account for a general partner investment in a limited partnership on the equity method, EITF 04-5 requires the general partner to grant certain rights to the limited partners. EITF 04-5 also applies to entities similar to limited partnerships, such as limited liability companies with governing provisions that are the functional equivalent of a limited partnership.

Consolidation of existing limited partnerships (or similar entities) in which we have a general partner (or similar) interest would result in a material increase in the amount of assets and liabilities reported in our balance sheet. However, management has amended partnership agreements, where applicable, to grant limited partner rights sufficient to overcome the EITF 04-5 control presumption and retain equity method accounting for such interests.

Determining Variability in the Application of FIN 46R
In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46R-6, “Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R).” The variability that is considered in applying FIN 46R affects the determination of (a) whether an entity is a variable interest entity (VIE), (b) which interests are “variable interests” in the entity, and (c) which party, if any, is the primary beneficiary of the VIE. That variability affects any calculation of expected losses and expected residual returns, if such a calculation is necessary. The Company is required to apply the guidance in this FSP prospectively to all entities (including newly created entities) with which it first becomes involved and to all entities previously required to be analyzed under FIN 46R when a “reconsideration event” has occurred, beginning July 1, 2006. Management has not yet determined what impact, if any, the application of FSP FIN46R-6 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 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 charges (credits) 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, 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.

We have reclassified certain prior year amounts to conform to the current presentation.

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Summarized unaudited financial information by business segment for the three months ended March 31, 2006 and 2005 is as follows ($ in thousands):

Investor and Occupier Services		2006	2005
Americas			
Revenue:			
Transaction services	$	48,212	27,099
Management services		62,261	44,983
Equity earnings (losses)		149	(1)
Other services		2,542	1,577
Intersegment revenue		165	289
		113,329	73,947
Operating expenses:			
Compensation, operating and administrative expenses		108,770	75,337
Depreciation and amortization		5,302	3,612
Operating loss	**$**	**(743)**	**(5,002)**
Europe			
Revenue:			
Transaction services	$	79,375	59,017
Management services		21,221	23,464
Equity losses		(220)	—
Other services		2,969	2,573
		103,345	85,054
Operating expenses:			
Compensation, operating and administrative expenses		105,719	90,472
Depreciation and amortization		2,508	2,551
Operating loss	**$**	**(4,882)**	**(7,969)**
Asia Pacific			
Revenue:			
Transaction services	$	28,648	24,900
Management services		27,840	23,443
Equity earnings		217	—
Other services		1,197	592
		57,902	48,935
Operating expenses:			
Compensation, operating and administrative expenses		56,773	48,978
Depreciation and amortization		1,822	1,805
Operating loss	**$**	**(693)**	**(1,848)**
Investment Management			
Revenue:			
Transaction and other services	$	11,020	1,902
Advisory fees		38,269	28,250
Incentive fees		13,544	2,376
Equity losses		(1,090)	(891)
		61,743	31,637

Operating expenses:			
Compensation, operating and administrative expenses		47,812	27,649
Depreciation and amortization		344	343
Operating income	**$**	**13,587**	**3,645**
Segment Reconciling Items:			
Total segment revenue	$	336,319	239,573
Intersegment revenue eliminations		(165)	(289)
Reclassification of equity (earnings) losses		944	892
Total revenue		337,098	240,176
Total segment operating expenses		329,050	250,747
Intersegment operating expense eliminations		(165)	(289)
Total operating expenses before restructuring credits		328,885	250,458
Restructuring credits		(501)	—
Operating income (loss)	**$**	**8,714**	**(10,282)**

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(3) Restructuring Charges (Credits)

In 2001, we closed our non-strategic residential land business in the Americas region of the Investment Management segment. In the three months ended March 31, 2006, we sold an asset from this business that resulted in a gain of $0.5 million.

(4) Investments in Real Estate Ventures

As of March 31, 2006 we had total investments and loans of $86.5 million in approximately 25 separate property or fund co-investments. Within this $86.5 million, loans of $3.4 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 ventures ($ in millions):

Type of Interest	Percent Ownership of Real Estate Limited Partnership Venture	Accounting Method	Carrying Value	
General partner	0% to 1%	Equity	$	0.2
Limited partner with advisory agreements	<1% to 48.72%	Equity		85.8
Equity method			**$**	**86.0**
Limited partner without advisory agreements	<1% to 5%	Cost		0.5
Total			**$**	**86.5**

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 substantially all 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 March 31, 2006, LIC I and LIC II have unfunded capital commitments of $170.2 million and $49.0 million, respectively, of which our 47.85% and 48.72% shares are $81.4 million and $23.9 million, respectively, for future fundings of co-investments. These $81.4 million and $23.9 million commitments are part of our maximum potential unfunded commitments to LIC I and LIC II at March 31, 2006, which are euro 88.5 million ($107.2 million) and $285.0 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 investment products in 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.

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As of March 31, 2006, LIC I maintains a euro 35 million ($42.4 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 ($20.3 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 88.5 million ($107.2 million) and to LIC II of $285.0 million discussed above. As of March 31, 2006, LIC I had euro 7.4 million ($9.0 million) of outstanding borrowings on the LIC I Facility, and LIC II had $58.7 million of outstanding borrowings on the LIC II Facility.

Exclusive of our LIC I and LIC II commitment structures, we have unfunded commitments to other real estate ventures of $3.3 million at March 31, 2006.

We expect to continue to pursue co-investment opportunities with our real estate money management clients in the Americas, Europe 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. We recorded no impairment charges in the first three months of 2006, compared with $1.2 million of such charges to "Equity in earnings (losses) from real estate ventures" in the first quarter of 2005, representing our equity share of the impairment charges against individual assets held by these ventures.

(5) Business Combinations, Goodwill and Other Intangible Assets

We have $523.7 million of unamortized identified intangibles and goodwill as of March 31, 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 $523.7 million of unamortized intangibles and goodwill, $480.5 million represents goodwill with indefinite useful lives, which we ceased amortizing beginning January 1, 2002. The remaining $43.2 million of identifiable intangibles (principally representing management contracts acquired) are amortized over their remaining finite useful lives.

On January 3, 2006, we acquired a 100% interest in 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 not be recorded if the related conditions are not achieved.

With the exception of $0.2 million recorded to property and equipment, the direct costs of the Spaulding & Slye acquisition are reflected in the current period “Additions” lines below. 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.

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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	Europe	Asia Pacific	Investment Management	Consolidated
Gross Carrying Amount					
Balance as of January 1, 2006	$ 185,339	67,291	92,552	27,999	373,181
Additions	144,764	—	—	—	144,764
Impact of exchange rate movements	—	818	(952)	157	23
Balance as of March 31, 2006	330,103	68,109	91,600	28,156	517,968
Accumulated Amortization					
Balance as of January 1, 2006	$ (15,457)	(5,755)	(6,825)	(9,413)	(37,450)
Impact of exchange rate movements	—	(77)	67	(22)	(32)
Balance as of March 31, 2006	(15,457)	(5,832)	(6,758)	(9,435)	(37,482)
Net book value as of March 31, 2006	**$ 314,646**	**62,277**	**84,842**	**18,721**	**480,486**

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	Europe	Asia Pacific	Investment Management	Consolidated
Gross Carrying Amount					
Balance as of January 1, 2006	$ 41,310	571	2,739	5,131	49,751
Additions	41,600	—	—	—	41,600
Impact of exchange rate movements	(1)	7	(67)	45	(16)
Balance as of March 31, 2006	82,909	578	2,672	5,176	91,335
Accumulated Amortization					
Balance as of January 1, 2006	$ (37,237)	(571)	(2,421)	(5,131)	(45,360)
Amortization expense	(2,710)	—	(94)	—	(2,804)
Impact of exchange rate movements	—	(7)	66	(45)	14
Balance as of March 31, 2006	$ (39,947)	(578)	(2,449)	(5,176)	(48,150)
	$ 42,962	**—**	**223**	**—**	**43,185**

Net book value as of March 31, 2006

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

2006	$	7.3
2007		6.5
2008		6.1
2009		3.5
2010		3.5
Thereafter		16.3
Total	$	43.2

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(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 2.9 million shares available for grant under the SAIP at March 31, 2006.

We adopted SFAS No. 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 principl