JONES LANG LASALLE INC
Form 10-Q
November 07, 2008

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

Form 10-Q

T Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008

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 T 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 T 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 T

The number of shares outstanding of the registrant’s common stock (par value $0.01) as of the close of business on November 5, 2008 was 34,503,401.

1

Table of Contents

Table of Contents

Part I Financial Information
Item 1. Financial Statements
JONES LANG LASALLE INCORPORATED
Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

($ in thousands, except share data) Assets		September 30, 2008 (unaudited)	December 31, 2007
Current assets:			
Cash and cash equivalents	$	63,563	78,580
Trade receivables, net of allowances of $25,199 and $13,300		685,639	834,865
Notes and other receivables		87,906	52,695
Prepaid expenses		37,734	26,148
Deferred tax assets		63,576	64,872
Other		10,819	13,816
Total current assets		949,237	1,070,976
Property and equipment, net of accumulated depreciation of $224,276 and $198,169		220,068	193,329
Goodwill, with indefinite useful lives		1,479,596	694,004
Identified intangibles, with finite useful lives, net of accumulated amortization of $35,702 and $68,537		72,737	41,670
Investments in real estate ventures		180,589	151,800
Long-term receivables, net		53,170	33,219
Deferred tax assets		38,289	58,584
Other, net		47,979	48,292
Total assets	$	3,041,665	2,291,874
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$	352,262	302,976
Accrued compensation		352,305	655,895
Short-term borrowings		18,668	14,385
Deferred tax liabilities		5,131	727
Deferred income		29,101	29,756
Deferred business acquisition obligations		43,332	45,363
Other		78,466	60,193
Total current liabilities		879,265	1,109,295
Noncurrent liabilities:			
Credit facilities		543,209	29,205
Deferred tax liabilities		5,474	6,577
Deferred compensation		39,823	46,423
Pension liabilities		1,765	1,096
Deferred business acquisition obligations		370,269	36,679
Minority shareholder redemption liability		44,080	—
Other		64,198	43,794
Total liabilities		1,948,083	1,273,069
Commitments and contingencies		—	—

Minority interest		3,970	8,272
Shareholders’ equity:			
Common stock, $.01 par value per share, 100,000,000 shares authorized; 34,491,043 and 31,722,587 shares issued and outstanding		345	317
Additional paid-in capital		572,241	441,951
Retained earnings		510,911	484,840
Shares held in trust		(3,480)	(1,930)
Accumulated other comprehensive income		9,595	85,355
Total shareholders’ equity		1,089,612	1,010,533
Total liabilities and shareholders’ equity	$	3,041,665	2,291,874

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, 2008 and 2007
($ in thousands, except share data) (unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue	$ 677,084	624,151	1,900,519	1,790,291
Operating expenses:				
Compensation and benefits	449,186	412,920	1,259,233	1,174,842
Operating, administrative and other	154,767	132,828	487,508	375,082
Depreciation and amortization	29,194	13,893	63,908	38,828
Restructuring charges (credits)	10,461	—	10,273	(411)
Operating expenses	643,608	559,641	1,820,922	1,588,341
Operating income	33,476	64,510	79,597	201,950
Interest expense, net of interest income	12,496	4,378	17,232	10,046
Gain on sale of investments	—	—	—	6,129
Equity in earnings (losses) from real estate ventures	(693)	4,979	(1,938)	11,480
Income before provision for income taxes and minority interest	20,287	65,111	60,427	209,513
Provision for income taxes	5,112	17,384	15,228	55,940
Minority interest, net of tax	171	1,197	1,838	1,197
Net income	$ 15,004	46,530	43,361	152,376
Net income available to common shareholders (Note 9)	$ 15,004	46,530	42,358	151,704
Basic earnings per common share	$ 0.44	1.44	1.30	4.73
Basic weighted average shares outstanding	34,217,379	32,416,773	32,627,905	32,060,102
Diluted earnings per common share	$ 0.43	1.38	1.25	4.50
Diluted weighted average shares outstanding	35,035,602	33,610,782	33,965,981	33,701,963

See accompanying notes to consolidated financial statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
Consolidated Statement of Shareholders' Equity
For the Nine Months Ended September 30, 2008
($ in thousands, except share data) (unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Shares Held in Trust	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2007	31,722,587	$ 317	441,951	484,840	(1,930)	85,355	$ 1,010,533
Net income	—	—	—	43,361	—	—	43,361
Shares issued for Staubach acquisition	1,997,682	20	99,980	—	—	—	100,000
Shares issued under stock compensation programs (1)	770,774	8	(5,606)	—	—	—	(5,598)
Tax benefits of vestings and exercises	—	—	4,013	—	—	—	4,013
Amortization of stock compensation	—	—	31,903	—	—	—	31,903
Dividends declared	—	—	—	(17,290)	—	—	(17,290)
Shares held in trust	—	—	—	—	(1,550)	—	(1,550)
Foreign currency translation adjustments	—	—	—	—	—	(75,760)	(75,760)
Balance at September 30, 2008	34,491,043	$ 345	572,241	510,911	(3,480)	9,595	$ 1,089,612

(1) Includes shares repurchased for payment of employee taxes on stock awards.

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, 2008 and 2007
($ in thousands) (unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 43,361	152,376
Reconciliation of net income to net cash operating activities:		
Depreciation and amortization	63,908	38,828
Equity in losses (earnings) from real estate ventures	1,938	(11,480)
Gain on sale of investments	-	(6,129)
Operating distributions from real estate ventures	1,767	10,592
Provision for loss on receivables	16,013	8,012
Minority interest	1,838	1,197
Amortization of deferred compensation	39,558	31,068
Amortization of debt issuance costs	2,308	438
Change in:		
Receivables	124,085	(41,443)
Prepaid expenses and other assets	(7,316)	(13,325)
Deferred tax assets, net	2,495	(798)
Excess tax benefits from share-based payment arrangements	(4,013)	(25,807)
Accounts payable, accrued compensation and other accrued liabilities	(399,064)	9,889
Net cash (used in) provided by operating activities	(113,122)	153,418
Cash flows from investing activities:		
Net capital additions – property and equipment	(72,243)	(71,320)
Business acquisitions	(282,950)	(86,984)
Capital contributions and advances to real estate ventures	(36,634)	(26,841)
Distributions, repayments of advances and sale of investments	29	34,523
Net cash used in investing activities	(391,798)	(150,622)
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	1,278,124	764,285
Repayments of borrowings under credit facilities	(759,838)	(695,329)
Debt issuance costs	(9,498)	(450)
Shares repurchased for payment of employee taxes on stock awards	(13,876)	(29,282)
Shares repurchased under share repurchase program	-	(66,160)
Excess tax benefits from share-based payment arrangements	4,013	25,807
Common stock issued under stock option plan and stock purchase programs	8,268	7,949
Payment of dividends	(17,290)	(12,056)
Net cash provided by (used in) financing activities	489,903	(5,236)
Net decrease in cash and cash equivalents	(15,017)	(2,440)
Cash and cash equivalents, January 1	78,580	50,612
Cash and cash equivalents, September 30	$ 63,563	48,172

Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$	10,290	11,548
Income taxes, net of refunds		71,243	39,624
Non-cash financing activities:			
Deferred business acquisition obligations		331,559	12,996

See accompanying notes to consolidated financial statements.

6

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 enc December 31, 2007, which are included in Jones Lang LaSalle's 2007 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) Interim Information

Our consolidated financial statements as of September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 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 and profits have tended to be higher in the third and fourth quarters of each year than in the first two quarters. This is the result of a general focus in the real estate industry on completing or documenting transactions by calendar-year-end and the fact that certain expenses are constant throughout the year. Our Investment Management segment earns investment-generated performance fees on clients' real estate investment returns and co-investment equity gains, generally when assets are sold, the timing of which is geared towards the benefit of our clients. Within our Investor and Occupier Services segments, the fluctuations in capital markets activities has had an increasing impact on comparability between reporting periods, as the timing of recognition of revenues relates to the size and timing of our clients' transactions. 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, 2008 and 2007 are not indicative of the results to be obtained for the full fiscal year.

(2) New Accounting Standards

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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. In November 2007, the FASB deferred the implementation of SFAS 157 for non-financial assets and liabilities for one year. Management has not yet determined what impact the application of SFAS 157 for non-financial assets and liabilities will have on our consolidated financial statements. On January 1, 2008 the Company adopted SFAS 157 with respect to its financial assets and liabilities that are measured at fair value. The adoption of these provisions did not have a material impact on our consolidated financial statements.

SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

We regularly use foreign currency forward contracts to manage our currency exchange rate risk related to intercompany lending and cash management practices. We determined the fair value of these contracts based on widely accepted valuation techniques. The inputs for these valuation techniques are Level 2 inputs in the hierarchy of SFAS 157. At September 30, 2008, we had forward exchange contracts in effect with a gross notional value of $517.6 million and a net fair value loss of $2.7 million, recorded as a current asset of $3.6 million and a current liability of $6.3 million. This net carrying loss is offset by a carrying gain in associated intercompany loans such that the net impact to earnings is not significant. At September 30, 2008, the Company has no recurring fair value measurements for financial assets and liabilities that are based on unobservable inputs or Level 3 inputs.

Table of Contents

Fair Value Option
In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Under SFAS 159, the Company had the option of adopting fair value accounting for financial assets and liabilities starting on January 1, 2008. The adoption of SFAS 159 did not have a material effect on our consolidated financial statements since the Company did not elect to measure any of its financial assets or liabilities using the fair value option prescribed by SFAS 159.

Business Combinations
In December 2007, the FASB issued SFAS 141(revised), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) will change how identifiable assets acquired and the liabilities assumed in a business combination will be recorded in the financial statements. SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires expensing of most transaction and restructuring costs. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is after December 31, 2008. Management has not yet determined what impact the application of SFAS 141(R) will have on our consolidated financial statements.

Noncontrolling Interests
In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies prospectively as of January 1, 2009. Management has not yet determined what impact the application of SFAS 160 will have on our consolidated financial statements.

Disclosures about Derivative Instruments and Hedging Activities
In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. Management has not yet determined what impact the application of SFAS 161 will have on our consolidated financial statement disclosures.

(3) Revenue Recognition

We categorize our revenues as:

- Transaction commissions;
- Advisory and management fees; and
- Incentive fees.

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.

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 incentive fees based on the performance of underlying funds and separate account investments, and the contractual benchmarks, formulas and timing of the measurement period with clients.

Table of Contents

Project and development management and construction management fees are a subset of our revenues in the advisory and management fees category. We recognize project and development management and construction management fees by 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 $6.1 million and $2.3 million for the three months ended September 30, 2008 and 2007, respectively and $12.7 million and $7.2 million for the nine months ended September 30, 2008 and 2007, respectively.

Gross construction services revenues totaled $78.7 million and $44.2 million for the three months ended September 30, 2008 and 2007, respectively, and $192.2 million and $128.6 million for the nine months ended September 30, 2008 and 2007, respectively.

Subcontract costs totaled $72.6 million and $41.9 million for the three months ended September 30, 2008 and 2007, respectively, and $179.5 million and $121.4 million for the nine months ended September 30, 2008 and 2007, respectively.

We include costs in excess of billings on uncompleted construction contracts of $21.0 million and $4.8 million in "Trade receivables," and billings in excess of costs on uncompleted construction contracts of $5.7 million and $12.9 million in "Deferred income," respectively, in our September 30, 2008 and December 31, 2007 consolidated balance sheets.

In certain of our businesses, primarily those involving management services, our clients reimburse us for expenses incurred on their behalf. We base the treatment of reimbursable expenses for financial reporting purposes 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. We report a contract that provides a fixed fee billing, fully inclusive of all personnel or other recoverable expenses incurred but not separately scheduled, 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 (i) a fixed management fee and (ii) 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. These costs aggregated approximately $286.9 million and $224.6 million for the three months ended September 30, 2008 and 2007, respectively, and approximately $860.3 million and $697.6 million for the nine months ended September 30, 2008 and 2007, respectively. This treatment has no impact on operating income, net income or cash flows.

Table of Contents

(4) 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. 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, energy management and sustainability and construction management services (collectively "management services"). Each geographic region offers our full range of IOS capabilities.

Operating income represents total revenue less direct and indirect allocable expenses. Allocated expenses primarily consist of corporate global overhead. We allocate these corporate global overhead expenses to the business segments based on the relative operating income of each segment.

For segment reporting we 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. Our measure of segment reporting results also excludes restructuring charges. The Chief Operating Decision Maker of Jones Lang LaSalle measures the segment results with “Equity in earnings (losses) from real estate ventures,” and without restructuring charges. 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 four reporting segments.

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

The following table summarizes unaudited financial information by business segment for the three and nine months ended September 30, 2008 and 2007 ($ in thousands):

Investor and Occupier Services		Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Americas					
Revenue:					
Transaction services	$	134,176	93,242	301,599	251,001
Management services		110,802	87,436	294,495	244,388
Equity earnings		—	1,262	41	1,682
Other services		9,094	6,026	21,674	18,161
		254,072	187,966	617,809	515,232
Operating expenses:					

Compensation, operating and administrative services		220,379	161,285	558,773	450,959
Depreciation and amortization		16,820	6,501	31,363	18,507
Operating income	$	16,873	20,180	27,673	45,766

10

Table of Contents

Investor and Occupier Services		Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
EMEA					
Revenue:					
Transaction services	$	147,436	184,061	454,307	484,102
Management services		53,655	37,836	160,859	105,100
Equity earnings (losses)		(3)	174	99	(21)
Other services		7,473	2,774	12,458	9,542
		208,561	224,845	627,723	598,723
Operating expenses:					
Compensation, operating and administrative services		194,693	205,892	605,652	541,448
Depreciation and amortization		7,978	4,704	20,864	13,151
Operating income	$	5,890	14,249	1,207	44,124
Asia Pacific					
Revenue:					
Transaction services	$	70,384	74,008	207,014	275,916
Management services		61,568	58,054	180,087	150,130
Equity earnings (losses)		(556)	253	(705)	485
Other services		1,159	1,702	5,337	5,112
		132,555	134,017	391,733	431,643
Operating expenses:					
Compensation, operating and administrative services		128,978	124,764	384,938	377,480
Depreciation and amortization		3,634	2,368	9,962	5,998
Operating income (loss)	$	(57)	6,885	(3,167)	48,165
Investment Management					
Revenue:					
Transaction and other services	$	4,047	9,336	14,485	17,267
Advisory fees		70,963	63,643	215,647	171,856
Incentive fees		6,326	6,033	32,557	57,716
Equity earnings (losses)		(134)	3,290	(1,373)	9,334
		81,202	82,302	261,316	256,173
Operating expenses:					
Compensation, operating and administrative services		59,903	53,808	197,378	180,038
Depreciation and amortization		762	319	1,719	1,171
Operating income	$	20,537			