

JONES LANG LASALLE INC
Form 10-K
February 28, 2007

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

Form 10-K

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

For the fiscal year ended December 31, 2006
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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock (\$.01 par value)

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K 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 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 aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant as of the close of business on June 30, 2006 was \$2,742,323,222.

The number of shares outstanding of the registrant's common stock (par value \$0.01) as of the close of business on February 20, 2007 was 36,748,384, which includes 4,749,651 shares held by a subsidiary of the registrant.

Portions of the Registrant's Proxy Statement for its 2007 Annual Meeting of Shareholders to be held on May 30, 2007 are incorporated by reference in Part III of this report.

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Item 1. Business

Company Overview

Jones Lang LaSalle Incorporated (“Jones Lang LaSalle,” which may be referred to as we, us, our, the Company or the Firm) was incorporated in 1997. We now have more than 150 offices worldwide, operations in more than 450 cities in 50 countries on five continents, and approximately 25,500 employees, including approximately 11,900 directly reimbursable property maintenance employees. We provide comprehensive integrated real estate and investment management expertise on a local, regional and global level to owner, occupier and investor clients. We are an industry leader in property and corporate facility management services, with a portfolio of over 1.0 billion square feet worldwide. In 2006, the Firm had revenues of \$2.0 billion and assisted in the completion of capital markets sales and acquisitions, debt financings, and equity placements on assets and portfolios valued at over \$70 billion. LaSalle Investment Management is one of the world’s largest and most diverse real estate money management firms, with over \$40 billion of assets under management. We were the only real estate services and money management firm named to *Forbes* magazine’s Platinum 400 list in 2006 and 2007, to *Fortune* magazine’s 100 Best Companies To Work For list in 2007, and to CRO (Corporate Responsibility Officer) magazine’s 100 Best Corporate Citizens list in 2007.

Our full range of real estate services includes:

- Agency leasing;
- Property management;
- Project and development;
- Valuations;
- Capital markets;
- Real estate investment banking and merchant banking;
- Buying and selling properties;
- Corporate finance;
- Hotel advisory;
- Space acquisition and disposition (tenant representation);
- Facilities management;
- Strategic consulting; and
- Outsourcing.

We provide real estate money management services on a global basis for both public and private assets through LaSalle Investment Management. Our services are enhanced by our integrated global business model, industry-leading research capabilities, client relationship management focus, consistent worldwide service delivery and strong brand.

We have grown by expanding both our client base and the range of our services and products, as well as through a series of strategic acquisitions and mergers. Our extensive global platform and in-depth knowledge of local real estate markets enable us to serve as a single-source provider of solutions for our clients’ full range of real estate needs. We solidified this network of services around the globe through the 1999 merger of the businesses of the Jones Lang Wootton companies (“JLW”) (founded in 1783) with those of LaSalle Partners Incorporated (“LaSalle Partners”) (founded in 1968).

Jones Lang LaSalle History

Prior to our incorporation in Maryland in April 1997 and our initial public offering (the “Offering”) of 4,000,000 shares of common stock in July 1997, Jones Lang LaSalle conducted business as LaSalle Partners Limited Partnership and LaSalle Partners Management Limited Partnership (collectively, the “Predecessor Partnerships”). Immediately prior to the Offering, the general and limited partners of the Predecessor Partnerships contributed all of their partnership

interests in the Predecessor Partnerships in exchange for an aggregate of 12,200,000 shares of common stock.

In October 1998, we acquired all of the common stock of the COMPASS group of real estate service companies (collectively referred to as “COMPASS”) from Lend Lease Corporation Limited. The acquisition of COMPASS made us the largest property management services company in the United States and expanded our international presence into Australia and South America.

In March 1999, LaSalle Partners merged its business with that of JLW and changed its name to Jones Lang LaSalle Incorporated. In connection with the merger, we issued 14,300,000 shares of common stock and paid cash consideration of \$6.2 million.

In January 2006, Jones Lang LaSalle merged operations with Spaulding & Slye, a privately held real estate services and investment company with offices in Boston and Washington, D.C. Substantially all of Spaulding & Slye’s 500 employees were integrated into the Jones Lang LaSalle organization, significantly increasing the Firm’s market presence in New England, as well as in Washington D.C. In May 2006, we acquired Rogers Chapman, a privately held real estate services company with offices in West London and the Thames Valley in England. In September 2006, we opened an office in Dubai, UAE, and acquired RSP Group, a privately held real estate investment services business with a local market-leading position and assignments across more than 20 Middle Eastern and North African countries. In October 2006, we acquired areAZero, a leading occupier fit-out business in Spain.

Performing Consistently and Maximizing Growth

Our stated mission is to deliver exceptional strategic, fully integrated services and solutions for real estate owners, occupiers and investors worldwide. To that end, we serve clients with four broad sets of services:

- Money Management;

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- Local Market Services;
- Capital Markets and Real Estate Investment Banking; and
- Occupier Services.

We believe this combination of services, skills and expertise sets us apart from our competitors. Consultancy practices typically do not share our implementation expertise, local market awareness or merchant banking capabilities. Investment banking and investment management competitors generally possess neither our local market knowledge nor our real estate service capabilities. Traditional real estate firms lack our financial expertise and operating consistency. Other global competitors do not have the same level of business integration or consistency of delivery that we can provide through our network of wholly owned offices and directly employed personnel.

Six key value drivers distinguish our business activities (see “Competitive Advantages” below):

- Our integrated global services platform;
- The quality and worldwide reach of our research function;
- Our focus on client relationship management as a means to provide superior client service;
- Our reputation for consistent worldwide service delivery, as measured by our creation of best practices and the skills and experience of our people;
- Our ability to deliver innovative solutions to assist our clients in maximizing the value of their real estate portfolios; and
- The strength of our brand.

We have designed our business model to create value for our clients, our shareholders and our employees. Based on our established presence in, and intimate knowledge of, real estate and capital markets worldwide, and supported by our investments in thought leadership and technology, we believe that we create value for clients by addressing not only their local, regional and global real estate needs, but also their broader business, strategic, operating and financial goals. We believe that the ability to create and deliver value drives our own ability to grow our business and improve profitability and shareholder value. In doing so, we enable our people to demonstrate their technical competence and advance their careers by taking on new and increased responsibilities within a dynamic environment as our business expands geographically and develops in sophistication.

Growth Strategy

To continue to create new value for our clients, shareholders and employees, in early 2005 we identified five strategic priorities for continued growth. We refer to them 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 have defined 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 from more than 150 offices around the world. We believe that we can leverage our established business presence in the world’s principal real estate markets to provide expanded local and regional services without a proportionate increase in infrastructure costs.

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 Solutions 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 and Real Estate Investment Banking. 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. Our real estate investment banking capability helps provide capital and other financial solutions by which our clients can maximize the value of their real estate.

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 globally integrated infrastructure resources they need to create sustainable value for our clients. As we fully leverage the investments we have made in our infrastructure, we will have a global platform that will allow us to perform our services in an increasingly efficient, integrated and consistent manner.

We committed resources to all G5 priorities during 2005 and 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.

Business Segments

We report our operations as four business segments. We manage our Investor and Occupier Services ("IOS") product offerings geographically as (i) the Americas, (ii) Europe, Middle East and Africa ("EMEA"), and (iii) Asia Pacific, and our money management business globally as (iv) LaSalle Investment Management. See "Results of Operations" within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Note 3 of the Notes to Consolidated Financial Statements, for financial information discussed by segment.

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Value Delivery: IOS Americas, EMEA and Asia Pacific

To address the needs of real estate owners and occupiers, we provide a full range of integrated property, project management and transaction services locally, regionally and globally through our regional operating segments in the Americas, Europe, Middle East and Africa (“EMEA”) and Asia Pacific. Services are delivered through the following teams:

Agency Leasing Services executes marketing and leasing programs on behalf of investors, developers, property companies and public bodies to secure tenants and negotiate leases with terms that reflect our clients’ best interests. In 2006, we completed approximately 8,600 agency leasing transactions representing approximately 105 million square feet of space.

Agency leasing fees are typically based on a percentage of the value of the lease revenue commitment for leases consummated.

Property Management Services provides on-site management services to real estate owners for office, industrial, retail and specialty properties. We seek to leverage our market share and buying power to deliver superior service to clients. Our goal is to enhance our clients’ property values through aggressive day-to-day management. We focus on maintaining high levels of occupancy and tenant satisfaction while lowering property operating costs. During 2006, we provided on-site property management services for office, retail, mixed-use and industrial properties totaling approximately 675 million square feet.

Property Management Services typically are provided by an on-site general manager and staff whom we support with regional supervisory teams and central resources in such areas as training, technical and environmental services, accounting, marketing and human resources. Our general managers are responsible for property management activities, client satisfaction and financial results. We do not compensate them with commissions, but rather with a combination of base salary and a performance bonus that is directly linked to results they produce for their clients. Increasingly, management agreements provide for incentive compensation relating to operating expense reductions, gross revenue or occupancy objectives or tenant satisfaction levels. Consistent with industry custom, management contract terms typically range from one to three years, but may be canceled at any time following a short notice period, usually 30 to 60 days.

Project and Development Services provides a variety of services—including interior build-out and conversion management, move management and strategic occupancy planning services—to tenants of leased space, owners in self-occupied buildings and owners of real estate investments. Project and Development Services frequently manages relocation and build-out initiatives for clients of our Property Management Services, Integrated Facilities Management and Tenant Representation Services units. Project and Development Services also manages all aspects of development and renovation of commercial projects for our clients. We have expanded this service to the public sector, particularly to the U.S. military and educational institutions.

Our Project and Development Services business is typically compensated on the basis of negotiated fees. Client contracts are typically multi-year in duration and may govern a number of discrete projects, with individual projects being completed in less than one year.

Jones Lang LaSalle Construction, Limited Partnership is the Firm’s full-service construction business that provides general contracting, "at risk" construction management and construction-related consulting services. Projects consist primarily of commercial-related construction, including office interiors, new construction and renovation of existing buildings. Jones Lang LaSalle Construction is fully integrated into the Company’s platform and operates in the Boston and Washington, D.C. areas. It will begin operating in Chicago in 2007.

The majority of our construction work is generated by properties managed and/or leased by Jones Lang LaSalle, tenants that we represent and other clients. Approximately 90 percent of Jones Lang LaSalle Construction's business is obtained through negotiated pricing, and the remaining 10 percent is obtained through competitive bids.

Valuation Services provides clients with professional valuation services, helping them determine market values for office, retail, industrial and mixed-use properties. Such services may involve valuing a single property or a global portfolio of multiple property types. Valuations, which typically involve commercial property, are completed for a variety of purposes, including acquisitions, dispositions, debt and equity financings, mergers and acquisitions, securities offerings (including initial public offerings) and privatization initiatives. Clients include occupiers, investors and financing sources from the public and private sectors. Our valuation specialists provide services to clients in nearly every developed country outside the Americas, where we do not currently provide such services. During 2006, we performed more than 27,000 valuations of commercial properties with an aggregate value of approximately \$515 billion.

Compensation for valuation services is generally negotiated for each assignment based on its scale and complexity, and typically relates in part to the value of the underlying assets.

Capital Markets Services includes institutional property sales and acquisitions, real estate financings, private equity placements, portfolio advisory activities, and corporate finance advice and execution. Real Estate Investment Banking Services includes sourcing capital, both in the form of equity and debt, derivatives structuring and other traditional investment banking services designed to assist corporate clients in maximizing the value of their real estate. As more and more real estate assets are marketed internationally, and as a growing number of clients are investing outside their home markets, our Capital Markets Services teams combine local market knowledge with our access to global capital sources to provide clients with superior execution in raising capital for their real estate assets. By researching, developing and introducing innovative new financial products and strategies, Capital Markets Services is integral to the business development efforts of our other businesses. In 2006, we advised clients on institutional property sales and acquisitions, debt financings and equity placements on assets and portfolios valued at approximately \$70.9 billion.

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Capital Markets Services units are typically compensated on the basis of the value of transactions completed or securities placed. In certain circumstances, we receive retainer fees for portfolio advisory services. Real Estate Investment Banking fees are generally transaction-specific and conditioned upon the successful completion of the transaction.

Tenant Representation Services establishes strategic alliances with clients to deliver ongoing assistance to meet their real estate needs, and to help them evaluate and execute transactions to meet their occupancy requirements. Tenant Representation Services also are an important component of our local market services. We assist clients by defining space requirements, identifying suitable alternatives, recommending appropriate occupancy solutions and negotiating lease and ownership terms with third parties. We help our clients lower real estate costs, minimize real estate occupancy risks, improve occupancy control and flexibility, and create more productive office environments. We employ a multidisciplinary approach to develop occupancy strategies linked to our clients' core business objectives.

Compensation for Tenant Representation Services is generally determined on a negotiated fee basis. Fees often reflect performance measures related to targets that we and our clients establish prior to engagement or, in the case of strategic alliances, at annual intervals thereafter. Quantitative and qualitative measurements are used to assess performance relative to these goals, and we are compensated accordingly, with incentive fees awarded for superior performance.

Integrated Facilities Management Services provides comprehensive portfolio and property management services to corporations and institutions that outsource the management of their occupied real estate. Properties under management range from corporate headquarters to industrial complexes. During 2006, Integrated Facilities Management Services managed approximately 350 million square feet of real estate for its clients. Our target clients typically have large portfolios (usually over 1 million square feet) that offer significant opportunities to reduce costs and improve service delivery. The competitive trends of globalization, outsourcing and offshoring are prompting many of these clients to demand consistent service delivery worldwide and a single point of contact from their real estate service providers. Performance measures are generally developed to quantify progress made toward mutually determined goals and objectives. Depending on client needs, Integrated Facilities Management Services units, either alone or partnering with other business units, provide services that include portfolio planning, property management, agency leasing, tenant representation, acquisition, finance, disposition, project management, development management and land advisory services.

Integrated Facilities Management Services units are compensated on the basis of negotiated fees that we typically structure to include a base fee and performance bonus. We base performance bonus compensation on a quantitative evaluation of progress toward performance measures and regularly scheduled client satisfaction surveys. Integrated Facilities Management Services agreements are typically three to five years in duration, but also are cancelable at any time upon a short notice period, usually 30 to 60 days, as is typical in the industry.

Strategic Consulting Services delivers innovative, results-driven real estate solutions that both strategically and tactically align with clients' business objectives. We provide clients with specialized, value-added real estate consulting services and strategies in such areas as mergers and acquisitions, development and asset strategy, occupier portfolio strategy, workplace solutions, location advisory, financial optimization strategies, organizational strategy and Six Sigma real estate solutions. Our professionals focus on translating global best practices into local real estate solutions, creating optimal financial results for our clients.

Compensation for Strategic Consulting Services is typically negotiated based on work plans developed for advisory services that vary based on scope and complexity of projects. For transaction services, compensation is based on the value of transactions completed.

Value Delivery: Money Management

Our global real estate money management business, a member of the Jones Lang LaSalle group that we operate under the name of LaSalle Investment Management, is driven by three priorities:

Developing and executing customized investment strategies that meet the specific investment objectives of each of our clients;

- Providing superior investment performance; and
- Delivering uniformly high levels of services.

We provide money management services to institutional investors and high-net-worth individuals. We seek to establish and maintain relationships with sophisticated investors who value our global platform and extensive local market knowledge. As of December 31, 2006, LaSalle Investment Management managed approximately \$40.6 billion of public and private real estate assets, making us one of the world's largest managers of institutional capital invested in real estate assets and securities.

LaSalle Investment Management provides clients with a broad range of real estate investment products and services in the public and private capital markets. We design these products and services to meet the differing strategic, risk/return and liquidity requirements of individual clients. The range of investment alternatives includes private investments in multiple real estate property types (including office, retail, industrial and residential) either through investment funds that LaSalle Investment Management manages or through single client account relationships ("separate accounts"). We also offer public indirect investments, primarily in publicly traded real estate investment trusts ("REITs") and other real estate equities.

We believe the success of our money management business comes from our industry-leading research capabilities, innovative investment strategies, global presence, local market knowledge, and strong client focus. We maintain an extensive real estate research department whose dedicated professionals monitor real estate and capital market conditions around the world to enhance current investment decisions and identify future opportunities. In addition to drawing on public sources for information, our research department utilizes the extensive local presence of Jones Lang LaSalle professionals throughout the world to gather and share proprietary insight into local market conditions.

The investment and capital origination activities of our money management business have grown increasingly global. We have invested in direct real estate in 20 countries across the globe, as well as in public real estate companies traded on all major stock exchanges. We expect money management activities, both fund raising and investing, to continue this trend as cross-border capital flows increase.

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Private Investments in Real Estate Properties. In serving our money management clients, LaSalle Investment Management is responsible for the acquisition, management, leasing, financing and divestiture of real estate investments across a broad range of real estate property types. LaSalle Investment Management launched its first institutional investment fund in 1979 and currently has a series of commingled investment funds, including nine funds that invest in assets in the Americas, nine funds that invest in assets located in Europe and three funds that invest in assets in Asia Pacific. LaSalle Investment Management also maintains separate account relationships with investors for whom LaSalle Investment Management manages private real estate investments. As of December 31, 2006, LaSalle Investment Management had approximately \$32.7 billion in assets under management in these funds and separate accounts.

Some investors prefer to partner with money managers willing to co-invest their own funds to more closely align the interests of the investor and the investment manager. We believe that our ability to co-invest funds alongside the investments of clients' funds will continue to be an important factor in maintaining and continually improving our competitive position. Our co-investment strategy will strengthen our ability to continue to raise capital for new investment funds. At December 31, 2006, we had a total of \$129.5 million of investments in, and loans to, co-investments.

We are expanding our "merchant banking" activities in appropriate circumstances. This involves making investments of Firm capital to acquire properties in order to seed investment management funds (typically within the LaSalle Investment Company structures described in Note 6 of the Notes to Consolidated Financial Statements) before they have been offered to clients.

LaSalle Investment Management conducts its operations with teams of professionals dedicated to achieving specific client objectives. We establish investment committees within each region whose members have specialized knowledge applicable to underlying investment strategies. These committees must approve all investment decisions for private market investments. We employ the investment committee approval process for LaSalle Investment Management's investment funds and for all separate account relationships.

LaSalle Investment Management is generally compensated for money management services for private equity investments based on initial capital invested and managed, with additional fees tied to investment performance above benchmark levels. The terms of contracts vary by the form of investment vehicle involved and the type of service we provide. Our investment funds have various life spans, typically ranging between five and 10 years. Separate account advisory agreements generally have three-year terms with "at will" termination provisions, and they may include compensation arrangements that are linked to the market value of the assets under management.

Investments in Public Equity. LaSalle Investment Management also offers clients the ability to invest in separate accounts focused on public real estate equity. We invest the capital of these clients principally in publicly traded securities of REITs and property company equities. As of December 31, 2006, LaSalle Investment Management had approximately \$7.9 billion of assets under management in these types of investments. LaSalle Investment Management is typically compensated by securities investment clients on the basis of the market value of assets under management.

Competitive Advantages

We believe that the six key value drivers noted above and articulated below create several competitive advantages that have made us the leading integrated global real estate services and money management firm.

Integrated Global Services. By combining a wide range of high-quality, complementary services—and delivering them at consistently high service levels globally through wholly owned Company offices with directly employed personnel—we can develop and implement real estate strategies that meet the increasingly complex and far-reaching

needs of our clients. We also believe that we have secured an established business presence in the world's principal real estate markets, with the result that we can grow revenues without a proportionate increase in infrastructure costs. With operations in more than 450 cities in 50 countries on five continents, we have in-depth knowledge of local and regional markets and can provide a full range of real estate services around the globe. This geographic coverage positions us to serve our multinational clients and manage investment capital on a global basis. In addition, we anticipate that our additional cross-selling potential across geographies and product lines will continue to develop new revenue sources for multiple business units within Jones Lang LaSalle.

Industry-Leading Research and Knowledge Building. We invest in and rely on comprehensive top-down and bottom-up research to support and guide the development of real estate and investment strategy. Our Global Research Executive Board oversees and coordinates the activities of approximately 220 research professionals who cover market and economic conditions in approximately 250 metropolitan areas in 40 countries around the world. Research also plays a key role in keeping colleagues throughout the organization attuned to important events and changing conditions in world markets. We facilitate the dissemination of this information to colleagues through our company-wide intranet.

Client Relationship Management. We support our ability to deliver superior service to our clients through our ongoing investments in client relationship management and account management. Our goal is to provide each client with a single point of contact at our firm, an individual who is answerable to, and accountable for, all the activities we undertake for the client. We believe that we enhance superior client service through best practices in client relationship management, the practice of seeking and acting on regular client feedback, and recognizing each client's definition of excellence.

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Our client-driven focus enables us to develop long-term relationships with real estate investors and occupiers. By developing these relationships, we are able to generate repeat business and create recurring revenue sources. In many cases, we establish strategic alliances with clients whose ongoing service needs mesh with our ability to deliver fully integrated real estate services across multiple business units and office locations. We support our relationship focus with an employee compensation system designed to reward client relationship building, teamwork and quality performance, in addition to revenue development.

Consistent Service Delivery. We believe that our investments in research, technology, people and innovation enable us to develop, share and continually evaluate best practices across our global organization. As a result, we are able to deliver the same consistently high levels of client service and operational excellence substantially wherever our clients' real estate investment and services needs exist.

Based on our general industry knowledge and specific client feedback, we believe we are recognized as an industry leader in technology. We possess the capability to provide sophisticated information technology systems on a global basis to serve our clients and support our employees. For example, the purpose of OneView by Jones Lang LaSalleSM, our client extranet technology, is to provide clients with detailed and comprehensive insight into their portfolios, the markets in which they operate and the services we provide to them. DelphiSM, our intranet technology, offers our employees easy access to the Firm's policies and its collective thinking regarding our experience, skills and best practices. In 2006, we applied for a patent in the United States with respect to certain aspects of OneView by Jones Lang LaSalleSM that we consider to be proprietary.

We believe that our investments in research, technology, people and thought leadership position our firm as a leading innovator in our industry. Major research initiatives, such as our "World Winning Cities" program, our offshoring index and our "Global Real Estate Transparency Index," investigate emerging trends and therefore help us anticipate future conditions and shape new services to benefit our clients. In 2006, we applied for a patent in the United States with respect to certain aspects of our Global Real Estate Transparency Index methodology that we consider to be proprietary. Professionals in our Strategic Consulting practice identify and respond to shifting market and business trends to address changing client needs and opportunities. LaSalle Investment Management relies on our comprehensive investigation of global real estate and capital markets to develop new investment products and services tailored to the specific investment goals and risk/return objectives of our clients. We believe that our commitment to innovation helps us secure and maintain profitable long-term relationships with the clients we target: the world's leading real estate owners, occupiers and investors.

Maximizing Values of Real Estate Portfolios. To maximize the values of our real estate investments, LaSalle Investment Management capitalizes on its strategic research insights and local market knowledge to develop an integrated approach that leads to innovative solutions and value enhancement. Our global strategic perspective allows us to assess pricing trends for real estate, and know which investors worldwide are actively investing. This enables us to have an ideal view as to when buying and selling strategies should be implemented. During hold periods, our local market research allows us to assess the potential for cash flow enhancement in our assets based on an informed opinion of rental rate trends. When combined, these two perspectives provide us with an optimal view that leads to timely execution and translates into superior investment performance.

Strong Brand. Based on our industry knowledge, commissioned marketing surveys, coverage in top-tier business publications and significant number of long-standing client relationships, we believe that large corporations and institutional investors and occupiers of real estate generally recognize us as a provider of high-quality, professional real estate and money management services. We believe that the strength of the Jones Lang LaSalle and LaSalle Investment Management brands and our reputation for excellence in service delivery represent significant advantages when we pursue new business opportunities.

Industry Trends

Increasing Demand for Global Services and Globalization of Capital Flows. Many corporations based in countries around the world have pursued growth opportunities in international markets. Many are striving to control costs by outsourcing or offshoring non-core business activities. Both trends have increased the demand for global real estate services, including facilities management, tenant representation and leasing, and property management services. We believe that this trend will favor real estate service providers with the capability to provide services—and consistently high service levels—in multiple markets around the world. Additionally, real estate capital flows have become increasingly global, as more assets are marketed internationally and as more investors seek real estate investment opportunities beyond their own borders. This trend has created new markets for investment managers equipped to facilitate international real estate capital flows and execute cross-border real estate transactions.

Consolidation. The real estate services industry has experienced significant consolidation in recent years. We believe that as a result of substantial existing infrastructure investments and the ability to spread fixed costs over a broader base of business, it is possible to recognize incrementally higher margins on property management and facilities management assignments as the amount of square footage under management increases.

Large users of commercial real estate services continue to demonstrate a preference for working with single-source service providers able to operate across local, regional and global markets. The ability to offer a full range of services on this scale requires significant corporate infrastructure investment, including information technology and personnel training. Smaller regional and local real estate service firms, with limited resources, are less able to make such investments.

Growth of Outsourcing. In recent years, on a global level, outsourcing of professional real estate services has increased substantially, as corporations have focused corporate resources, including capital, on core competencies. In addition, public and other non-corporate users of real estate, including government agencies and health and educational institutions, have begun to outsource real estate activities as a means of reducing costs. As a result, we believe there are significant growth opportunities for firms like ours that can provide integrated real estate services across many geographic markets.

Alignment of Interests of Investors and Investment Managers. Institutional investors continue to allocate significant portions of their investment capital to real estate, and many investors have shown a desire to commit their capital to investment managers willing to co-invest their own funds in specific real estate investments or real estate funds. In addition, investors are increasingly requiring that fees paid to investment managers be more closely aligned with investment performance. As a result, we believe that investment managers with co-investment capital, such as LaSalle Investment Management, will have an advantage in attracting real estate investment capital. In addition, co-investment may bring the opportunity to provide additional services related to the acquisition, financing, property management, leasing and disposition of such investments.

Table of Contents**Employees**

With the help of aggressive goal and performance measurements, we attempt to instill in all of our people the commitment to be the best. Our goal is to be the real estate advisor of choice for clients and the employer of choice in our industry. To achieve that, we intend to continue to promote those human resources techniques that will attract, motivate and retain high quality employees. The following table details our respective headcounts at December 31, 2006 and 2005:

	2006	2005
Professional	11,800	9,400
Support	1,800	1,500
	13,600	10,900
Directly reimbursable property maintenance	11,900	11,100
Total employees	25,500	22,000
Directly reimbursable project management employees included as professionals above	4,200	3,500

The increase in headcount in 2006 was driven by acquisitions, such as Spaulding & Slye, additional or expanded outsourcing engagements, and strategic hiring across all regions, particularly in Asia Pacific.

Directly reimbursable project management employees work with clients that have a contracted fee structure comprised of a fixed management fee and a separate component that allows for scheduled reimbursable personnel and other expenses to be billed directly to the client.

Approximately 9,300 and 7,700 of our professional and support staff in 2006 and 2005, respectively, were based in countries other than the United States. Additionally, approximately 8,100 and 7,600 of our directly reimbursable property maintenance workers in 2006 and 2005, respectively, were based in countries other than the United States. Our employees are not members of any labor unions with the exception of approximately 800 of our directly reimbursable property maintenance employees in the United States. We have generally had satisfactory relations with our employees.

Company Web Site, Corporate Governance and Other Available Information

Jones Lang LaSalle's Web site address is www.joneslanglasalle.com. We make available, free of charge, our Form 10-K, 10-Q and 8-K reports, and our proxy statements, as soon as reasonably practicable after we file them electronically with the U.S. Securities and Exchange Commission ("SEC"). You also may read and copy any document we file with the SEC at its public reference room at 100 F Street, NE, Washington, D.C. 20549. You may call the SEC at 1.800.SEC.0330 for information about its public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy statements and other information that we file electronically with the SEC. The SEC's Web site address is www.sec.gov.

The Company's Code of Business Ethics, which applies to all employees of the Company, including our Chief Executive Officer, Chief Operating and Financial Officer, Global Controller and the members of our Board of Directors, can also be found on our Web site under Investor Relations/Board of Directors and Corporate Governance. In addition, the Company intends to post any amendment or waiver of the Code of Business Ethics with respect to a member of our Board of Directors or any of the executive officers named in our proxy statement.

Our Web site also includes information about our corporate governance. You may access, in addition to other information, the following materials, which we will make available in print to any shareholder who requests them:

- Bylaws
- Corporate Governance Guidelines
- Charters for our Audit, Compensation, and Nominating and Governance Committees
- Statement of Qualifications for Members of the Board of Directors
- Complaint Procedures for Accounting and Auditing Matters
- Statements of Beneficial Ownership of our Equity Securities by our Directors and Officers

Item 1A. Risk Factors

The complex, dynamic and international scope of our operations overall, and of our operations in particular regions and countries, involves a number of significant risks for our business. The fact that we operate in numerous countries likely magnifies those risks relative to other companies whose operations are not as geographically dispersed. If the risks associated with the services we provide, our operations in particular regions and countries and the international scope of our operations cannot be or are not successfully managed, our business, operating results and/or financial condition could be materially and adversely affected.

One of the challenges of a global business such as ours is to be able to determine in a sophisticated manner the enterprise risks that in fact exist and continuously to monitor those that develop over time as a result of changes in the business, laws to which we are subject and the other factors we discuss below. We must then determine how best to employ available resources to prevent, mitigate and/or minimize those risks that have the greatest potential (1) to occur and (2) to cause significant damage from an operational, financial or reputational standpoint. An important dynamic that we must also consider and appropriately manage is how much and what types of commercial insurance to obtain and how much potential liability may remain uninsured consistent with the infrastructure that is in place within the organization to identify and properly manage it. While we attempt to approach these issues in an increasingly sophisticated and coordinated manner across the globe, our failure to identify or effectively manage the enterprise risks inherent within our business could result in a material adverse effect on our business, results of operations and/or financial condition.

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We govern our enterprise risk program primarily through our Global Operating Committee, which is chaired by our Global Chief Operating Officer and includes the Chief Operating Officers of our four reported business segments and the leaders from certain corporate staff groups such as Finance, Legal and Insurance. The Global Operating Committee coordinates its enterprise risk activities with our Internal Audit function, which performs an annual risk assessment of our business.

This section reflects our views concerning the most significant risks we believe face our business, although they do not purport to include every possible risk from which we might sustain a loss. For purposes of the following analysis and discussion, we generally group the risks we face according to four principal categories:

- External Market Risk Factors;
- Internal Operational Risk Factors;
- Financial Risk Factors; and
- Human Resources Risk Factors.

Some of the risks we identify could appropriately be discussed in more than one category, but we have chosen the one we view as primary.

External Market Risk Factors

General economic conditions and real estate market conditions can have a negative impact on our business. We have experienced in past years, and expect in the future to be negatively impacted by, periods of economic slowdown or recession, and corresponding declines in the demand for real estate and related services, within one or more of the markets in which we operate. Each real estate market tends to be cyclical and related to the condition of its corresponding economy as a whole or, at least, to the perceptions of investors and users as to the relevant economic outlook. For example, corporations may be hesitant to expand space or enter into long-term commitments if they are concerned with the economic environment. Corporations that are under financial pressure for any reason, or are attempting to more aggressively manage their expenses, may reduce the size of their workforces and/or seek corresponding reductions in office space and related management services. Negative economic conditions and declines in the demand for real estate and related services in several markets or in significant markets could have a material adverse effect on our business, results of operations and/or financial condition, including as a result of the following factors:

- **Decline in Real Estate Investment Activity**
A general decline in real estate investment activity can lead to a reduction in our investment management fees, on the fees generated from the acquisition of property for clients, as well as in fees and commissions for arranging acquisitions, dispositions and financings.
- **Decline in Acquisition and Disposition Activity**
A general decline in acquisition and disposition activity can lead to a reduction in fees and commissions for arranging such transactions, as well as in fees and commissions for arranging financing for acquirers.
- **Decline in Leasing Activity**
A general decline in leasing activity can lead to a reduction in fees and commissions for arranging leases, both on behalf of owners and tenants. Additionally, a decline in leasing activity can lead to a reduction in the demand for, and fees earned from, other real estate services, such as Project and Development Services (managing the build-out of space) and Integrated Facilities Management Services (managing space occupied by clients).
- **Decline in the Value and Performance of Real Estate and Rental Rates**

A general decline in the value and performance of real estate and in rental rates can lead to a reduction in investment management fees (the most significant portion of which are generally based upon the performance of investments) and the value of the co-investments we make with our investment management clients or merchant banking investments we have made for our own account. Additionally, such declines can lead to a reduction in fees and commissions that are based upon the value of, or revenues produced by, the properties with respect to which services are provided, including fees and commissions for property management and valuations, and for arranging acquisitions, dispositions, leasing and financings. Historically, a significant decline in real estate values in a given market has also tended to result in increases in litigation regarding advisory and valuation work done prior to the decline.

Changes in non-real estate markets can also affect our business. For example, strength in the equity markets can mean that there are generally lower levels of capital allocated to real estate, which in turn can mean that our ability to generate fees from the operation of our investment management business will be negatively impacted. Strength in the equity markets can also negatively impact the performance of real estate as an asset class, which in turn means that the incentive fees relating to the performance of our investment funds will be negatively impacted.

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Real estate services and investment management markets are highly competitive. We provide a broad range of commercial real estate and investment management services, and there is significant competition on an international, regional and local level with respect to many of these services and in commercial real estate services generally. Depending on the service, we face competition from other real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers, accounting firms, technology firms, firms providing outsourcing services and companies bringing their real estate services in-house (any of which may be a global, regional or local firm). Many of our competitors are local or regional firms, which, although substantially smaller in overall size, may be larger in a specific local or regional market. Some of our competitors are expanding the services they offer in an attempt to gain additional business. Some of our competitors may have greater financial, technical and marketing resources, larger customer bases, and more established relationships with their customers and suppliers than we have. Larger or more well-capitalized competitors may be able to respond faster to the need for technological changes, price their services more aggressively, compete more effectively for skilled professionals, finance acquisitions more easily and generally compete more aggressively for market share.

New competitors or alliances among competitors that increase their ability to service clients could emerge and gain market share, develop a lower cost structure, adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services we offer. In order to respond to increased competition and pricing pressure, we may have to lower our prices, which would have an adverse effect on our revenues and profit margins.

We are substantially dependent on long-term client relationships and on revenue received for services under various service agreements. Many of these agreements may be canceled by the client for any reason with as little as 30 to 60 days' notice, as is typical in the industry. In this competitive market, if we are unable to maintain these relationships or are otherwise unable to retain existing clients and develop new clients, our business, results of operations and financial condition will be materially adversely affected.

We must also continue to successfully differentiate the scope and quality of our service and product offerings from those of our competitors in order to maintain the value and premium status of our brand, which is one of our most important assets.

The seasonality of our business exposes us to risks and to volatility in our stock price. Our revenues and profits tend to be significantly higher in the third and fourth quarters of each year than in the first two quarters. This is a 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 through the year. Historically, we have reported an operating loss or a relatively small profit in the first quarter and then increasingly larger profits during each of the following three quarters, excluding the recognition of investment-generated performance fees and co-investment equity gains (both of which can be particularly unpredictable). The seasonality of our business makes it difficult to determine during the course of the year whether plan results will be achieved, and thus to adjust to changes in expectations. Additionally, negative economic or other conditions that arise at a time when they impact performance in the fourth quarter, such as the particular timing of when larger transactions close or changes in the value of the U.S. dollar against other currencies, may have a more significant impact than if they occurred earlier in the year. To the extent we are not able to identify and adjust for changes in expectations or we are confronted with negative conditions that impact inordinately on the fourth quarter of a year, this could have a material adverse effect on our business, results of operations and/or financial condition. This may in turn lead to volatility in our stock price.

Political and Economic Instability and Transparency; Terrorist Activities; Health Epidemics. We operate in 50 countries with varying degrees of political and economic stability and transparency. For example, certain Asian, Eastern European and South American countries have experienced serious political and economic instability within the past few years, and such instability will likely continue to arise from time to time in countries in which we have operations. As a result, our ability to operate our business in the ordinary course may be disrupted in one way or

another, with corresponding reductions in revenues, increases in expenses or other material adverse effects. In addition, terrorist activities have escalated in recent years and at times have affected cities in which we operate. To the extent that similar terrorist activities continue to occur, they may adversely affect our business because they tend to target the same type of high-profile urban areas in which we do business.

Health epidemics that affect the general conduct of business in one or more urban areas (including as the result of travel restrictions and the inability to conduct face-to-face meetings), such as occurred in the past from SARS or may occur in the future from an avian flu outbreak, can also adversely affect the volume of business transactions, real estate markets and the cost of operating real estate or providing real estate services, and may therefore adversely affect our results.

Infrastructure Disruptions. Our ability to conduct a global business may be adversely impacted by disruptions to the infrastructure that supports our businesses and the communities in which they are located. This may include disruptions involving electrical, communications, transportation or other services used by Jones Lang LaSalle or third parties with which we conduct business, or disruptions as the result of natural disasters (such as earthquakes and floods), political instability or terrorist attacks. These disruptions may occur, for example, as a result of events affecting only the buildings in which we operate (such as fires), or as a result of events with a broader impact on the cities where those buildings are located (including, potentially, the longer-term effects of global climate change). Nearly all of our employees in our primary locations, including Chicago, London, Singapore and Sydney, work in close proximity to each other in one or more buildings. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer, and we may not be able to successfully implement contingency plans that depend on communication or travel.

The infrastructure disruptions described above may also disrupt our ability to manage real estate for clients or may adversely affect the value of real estate investments we make on behalf of clients. The buildings we manage for clients, which include some of the world's largest office properties and retail malls, are used by numerous people daily, as the result of which fires, earthquakes, floods, other natural disasters, defects and terrorist attacks can result in significant loss of life, and, to the extent we are held to have been negligent in connection with our management of the affected properties, we could incur significant financial liabilities and reputational harm.

The occurrence of natural disasters and terrorist attacks can also significantly increase the availability and/or cost of commercial insurance policies covering real estate, both for our own business and for those clients whose properties we manage and who may purchase their insurance through the insurance buying programs we make available to them.

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While we have disaster recovery and crisis management procedures in place, there can be no assurance that they will suffice in any particular situation to avoid a significant loss.

Civil and Regulatory Claims; Litigating Disputes in Different Jurisdictions. Substantial civil legal liability or a significant regulatory action against the Company could have a material adverse financial effect or cause us significant reputational harm, which in turn could seriously harm our business prospects. While we do maintain commercial insurance in an amount we believe is appropriate, we also maintain a significant level of self-insurance for the liabilities we may incur. Because any disputes we have with third parties, or any government regulatory matters, must generally be adjudicated within the jurisdiction in which the dispute arose, our ability to resolve our disputes successfully depends on the local laws that apply and the operation of the local judicial system, the timeliness, quality, transparency and sophistication of which varies widely from one jurisdiction to the next. Our geographic diversity therefore makes it unusually challenging to resolve any such disputes efficiently and/or effectively, particularly as there appears to be a tendency toward more litigation in emerging markets, where the legal systems are especially less mature and transparent.

Internal Operational Risk Factors

Concentrations of business with corporate clients increase credit risk and the impact from the loss of certain clients. While our client base remains diversified across industries and geographies, we do value the expansion of business relationships with individual corporate clients and the increased efficiency and economics (both to our clients and our firm) that can result from developing repeat business from the same client and from performing an increasingly broad range of services for the same client. At the same time, having increasingly large and concentrated clients can also lead to greater or more concentrated risks of loss if, among other possibilities, such a client (1) experiences its own financial problems, which can lead to larger individual credit risks, (2) becomes bankrupt or insolvent, which can lead to our failure to be paid for services we have previously provided or funds we have previously advanced, (3) decides to reduce its operations or its real estate facilities, (4) makes a change in its real estate strategy, such as no longer outsourcing its real estate operations, (5) decides to change its providers of real estate services or (6) merges with another corporation or otherwise undergoes a change of control, which may result in new management taking over with a different real estate philosophy or in different relationships with other real estate providers. Additionally, increasingly large clients may, and sometimes do, attempt to leverage the extent of their relationships with us during the course of contract negotiations or in connection with disputes or potential litigation.

Contractual Liabilities as Principal and for Warranted Pricing. We may, on behalf of our clients, hire and supervise third-party contractors to provide construction, engineering and various other services for our managed properties or properties we are developing. Depending upon the terms of our contracts with clients (which, for example, may place us in the position of a principal rather than an agent) or responsibilities we assume or are legally deemed to have assumed in the course of a client engagement (whether or not memorialized in a contract), we may be subjected to, or become liable for, claims for construction defects, negligent performance of work or other similar actions by third parties whom we do not control. Adverse outcomes of property management disputes or litigation could negatively impact our business, financial condition and/or results of operations, particularly if we have not limited in our contracts the extent of damages to which we may be liable for the consequences of our actions or if our liabilities exceed the amounts of the commercial third-party insurance that we carry. Moreover, our clients may seek to hold us accountable for the actions of contractors because of our role as property manager even if we have technically disclaimed liability as a legal matter, in which case we may be pressured to participate in a financial settlement for purposes of preserving the client relationship.

As part of our project management business, we may enter into agreements with clients that provide for a warranted or guaranteed cost for a project that we manage. In these situations, we are responsible for managing the various other contractors required for a project, including general contractors, in order to ensure that the cost of a project does not

exceed the contract price and that the project is completed on time. In the event that one of the other contractors on the project does not or cannot perform as a result of bankruptcy or for some other reason, we are responsible for any cost overruns as well as the consequences for late delivery.

Performance Under Client Contracts; Revenue Recognition; Scope Creep. We generally provide our services to our clients under contracts, and in certain cases we are subject to regulatory and/or fiduciary obligations (which may relate to, among other matters, the decisions we may make on behalf of a client with respect to managing assets on its behalf or purchasing products or services from third parties or other divisions within our firm). Our services may involve handling substantial amounts of client funds in connection with managing their properties. We face legal and reputational risks in the event we do not perform, or are perceived to have not performed, under those contracts or in accordance with those regulations or obligations, or in the event we are negligent in the handling of client funds. The precautions we take to prevent these types of occurrences, which represent a significant commitment of corporate resources, may nevertheless not be effective in all cases. Unexpected costs or delays could make our client contracts or engagements less profitable than anticipated. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could have an adverse effect on profit margins.

In the event that we perform services for clients without executing appropriate contractual documentation, we may be unable to realize our full compensation potential or recognize revenue for accounting purposes, and we may not be able to effectively limit our liability in the event of client disputes. In the event we perform services for clients that are beyond, or different from, what were contemplated in contracts (known as “scope creep”), we may not be fully reimbursed for the services provided, or our potential liability in the case of a negligence claim may not have been as limited as it normally would have been or may be unclear.

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Co-investment, investment, merchant banking and real estate investment banking activities subject us to real estate investment risks and potential liabilities. An important part of our investment strategy includes investing in real estate both individually and along with our money management clients. In order to remain competitive with well-capitalized financial services firms, we also make merchant banking investments, as the result of which we may use Firm capital to acquire properties before the related investment management funds have been established or investment commitments received from third-party clients. An emerging but potentially significant strategy is to further engage in certain real estate investment banking activities in which we, either solely or with one or more joint venture partners, would employ capital to assist our clients in maximizing the value of their real estate (for example, we might acquire a property from a client that wishes to dispose of it within a certain time frame, after which we would market it for sale as the principal and therefore assume any related market risk). We also have business lines that have as part of their strategy the acquisition, development, management and sale of real estate. Investing in any of these types of situations exposes us to a number of risks that could have a material adverse effect on our business, results of operations and/or financial condition, including as a result of the following risks:

- We may lose some or all of the capital that we invest if the investments perform poorly.
- We will have fluctuations in earnings and cash flow as we recognize gains or losses, and receive cash, upon the disposition of investments, the timing of which is geared toward the benefit of our clients.
- We generally hold our investments in real estate through subsidiaries with limited liability; however, in certain circumstances, it is possible that this limited exposure may be expanded in the future based upon, among other things, changes in applicable laws or the application of existing or new laws. To the extent this occurs, our liability could exceed the amount we have invested.
- We make co-investments in real estate in many countries, and this presents risks as described above in “External Market Risk Factors.”

Corporate Conflicts of Interest. All providers of professional services to clients, including our firm, must manage potential conflicts of interest that may arise, principally where the primary duty of loyalty owed to one client is somehow potentially weakened or compromised by a relationship also maintained with another client or third party. While the Company has policies and procedures in place to identify, disclose and resolve potential conflicts of interest, the failure or inability to do so in a significant situation could have a material adverse effect on our business, operating results and/or financial condition. Corporate conflicts of interest arise in the context of the services we provide as a firm to our different clients. Personal conflicts of interest on the part of our employees are separately considered as issues within the context of our Code of Business Ethics.

Client Due Diligence. There are circumstances where the conduct or identity of our clients could cause us reputational damage or financial harm or could lead to our non-compliance with certain laws, as the result of which there could be a material adverse effect on our business, operating results and/or financial condition. An example would be the attempt by a client to “launder” funds through its relationship with us, namely to disguise the illegal source of funds that are put into otherwise legitimate real estate investments. While we continue to attempt to enhance the procedures we use to evaluate our clients before doing business with them and to avoid attempts to launder money or otherwise to exploit their relationship with us, our efforts may not be successful in all situations.

Burden of Complying with Multiple and Potentially Conflicting Laws and Regulations and Dealing with Changes in Legal and Regulatory Requirements. We face a broad range of legal and regulatory environments in the countries in which we do business. Coordinating our activities to deal with these requirements presents significant challenges. As an example, in the United Kingdom, the Financial Services Authority (FSA) regulates the conduct of investment businesses and the Royal Institute of Chartered Surveyors (RICS) regulates the profession of Chartered Surveyors, which is the professional qualification required for certain of the services we provide in the United Kingdom, through upholding standards of competence and conduct. As another example, various activities of LaSalle Investment Management associated with raising capital and offering investment funds are regulated in the United

States by the Securities and Exchange Commission (SEC) and in other countries by similar securities regulatory authorities, and as a publicly traded company, we are subject to various corporate governance and other requirements established by statute, pursuant to SEC regulations and under the rules of the New York Stock Exchange.

Additionally, changes in legal and regulatory requirements can impact our ability to engage in business in certain jurisdictions or increase the cost of doing so. The legal requirements of U.S. statutes may also conflict with local legal requirements in a particular country, as, for example, when anonymous hotlines required under U.S. law were construed to conflict in part with French privacy laws.

Licensing Requirements. The brokerage of real estate sales and leasing transactions, property management and the operation of the investment advisory business, among other business lines, require us to maintain licenses in various jurisdictions in which we operate. If we fail to maintain our licenses or conduct brokerage, management, investment advisory or other regulated activities without a license, we may be required to pay fines or return commissions received or have licenses suspended. Licensing requirements may also preclude us from engaging in certain types of transactions or change the way in which we conduct business or the cost of doing so. In addition, because the size and scope of real estate sales transactions and the number of countries in which we operate or invest have increased significantly during the past several years, both the difficulty of ensuring compliance with the numerous licensing regimes and the possible loss resulting from noncompliance have increased. Furthermore, the laws and regulations applicable to our business, both in the United States and in foreign countries, also may change in ways that materially increase the costs of compliance. Particularly in emerging markets, there can be relatively less transparency around the standards and conditions under which licenses are granted or renewed.

As a licensed real estate service provider and advisor in various jurisdictions, we and our licensed employees may be subject to various due diligence, disclosure, standard-of-care, anti-money laundering and other obligations in the jurisdictions in which we operate. Failure to fulfill these obligations could subject us to litigation from parties who purchased, sold or leased properties we brokered or managed or who invested in our funds. We could become subject to claims by participants in real estate sales or other services claiming that we did not fulfill our obligations as a service provider or broker (including, for example, with respect to conflicts of interests where we are acting, or are perceived to be acting, for two or more clients with potentially contrary interests).

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Computer and Information Systems. Our business is highly dependent on our ability to process transactions across numerous and diverse markets in many currencies. If any of our financial, accounting, human resources or other data processing, e-mail, client accounting, funds processing or electronic information management systems do not operate properly or are disabled (including as the result of computer viruses, problems with the internet or sabotage), we could suffer a disruption of our businesses, liability to clients, loss of client data, regulatory intervention or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including disruptions of electrical or communications services, disruptions caused by natural disasters, political instability or terrorist attacks, or our inability to occupy one or more of our buildings.

The development of new software systems used to operate one or more aspects of our business, particularly on a customized basis or in order to coordinate or consolidate financial, human resources or other types of infrastructure data reporting, client accounting or funds processing is complicated and may result in costs that cannot be recuperated in the event of the failure to complete a planned software development. A new software system that has defects may cause reputational issues and client or employee dissatisfaction, with business lost as a result. The acquisition or development of software systems is often dependent to one degree or another on the quality, ability and/or financial stability of one or more third-party vendors, over which we may not have control beyond the rights we negotiate in our contracts. Different privacy policies from one country to the next (or across a region such as the European Union) may restrict our ability to share or collect data on a global basis, and this may limit the utility of otherwise available technology.

Our business is also dependent, in part, on our ability to deliver to our clients the efficiencies and convenience afforded by technology. The effort to gain technological expertise and develop or acquire new technologies requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors do, we could lose market share.

Risks Inherent in Making Acquisitions. We have made in the past, and anticipate that we may make in the future, acquisitions of businesses or business lines. In 2006, for example, we closed the acquisition of Spaulding & Slye, a significant business with approximately 500 employees, and we completed a number of other smaller but still strategically important acquisitions in various countries. Any such acquisitions may subject us to a number of significant risks, including, among others:

- Diversion of management attention;
- Inability to retain the management, key personnel and other employees of the acquired business;
- Inability to retain clients of the acquired business;
- Exposure to legal, environmental, employment and other types of claims for activities of the acquired business prior to acquisition, including those that may not have been adequately identified during the pre-acquisition due diligence investigation;
- Addition of business lines in which we have not previously engaged (for example, general contractor services for “ground up” construction development projects);
- Inability to effectively integrate the acquired business and its employees; and
- Potential impairment of intangible assets, which could adversely affect our reported results.

We may face liability with respect to environmental issues occurring at properties that we manage or in which we invest. Various laws and regulations impose liability on current or previous real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. We may face liability under these laws as a result of our role as an on-site property manager or a manager of construction projects. In addition, we may face liability if such laws are applied to expand our limited liability with respect to our co-investments in real estate as discussed below.

Ability to Protect Intellectual Property; Infringement of Third-Party Intellectual Property Rights. Our business depends, in part, on our ability to identify and protect proprietary information and other intellectual property (such as our service marks, client lists and information, and business methods). Existing laws of some countries in which we provide or intend to provide services (or the extent to which laws are enforced) may offer only limited protections of our intellectual property rights. We rely on a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements, and on patent, copyright and trademark laws to protect our intellectual property rights. Our inability to detect unauthorized use (for example, by former employees) or take appropriate or timely steps to enforce our intellectual property rights may have an adverse effect on our business.

We cannot be sure that the services we offer to clients do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or against our clients. These claims may harm our reputation, cost us money and prevent us from offering some services.

Ability to Continue to Maintain Satisfactory Internal Financial Reporting Controls and Procedures. If we are not able to continue to successfully implement the requirements of Section 404 of the United States Sarbanes-Oxley Act of 2002, our reputation, financial results and the market price of our stock could suffer. While we believe that we have adequate internal financial reporting control procedures in place, we may be exposed to potential risks from this legislation, which requires companies to evaluate their internal controls and have their controls attested to by their independent auditors on an annual basis. We have evaluated our internal control systems in order to allow our management to report on, and our independent auditors to attest to, our internal controls over financial reporting as required for purposes of this Annual Report on Form 10-K for the year ended December 31, 2006. However, there can be no assurance that we will continue to receive a positive attestation in future years, particularly since standards continue to evolve and are not necessarily being applied consistently from one auditing firm to another. If we identify one or more material weaknesses in our internal controls in the future that we cannot remediate in a timely fashion, we may be unable to receive a positive attestation at some time in the future from our independent auditors with respect to our internal controls over financial reporting.

Financial Risk Factors

We may have indebtedness with fixed or variable interest rates and certain covenants with which we must comply. At December 31, 2006, we had \$50.1 million of indebtedness on a consolidated basis, principally under a revolving credit facility from a syndicate of lenders. Our average outstanding borrowings under the revolving credit facility were \$205.2 million during 2006, and the effective interest rate on that facility was 5.1%.

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Our outstanding borrowings fluctuate during the year primarily due to varying working capital requirements. For example, payment of annual incentive compensation represents a significant working capital requirement commanding increased borrowings in the first half of the year, while the Firm's seasonal earnings pattern provides more for working capital requirements in the second half of the year.

The terms of our debt contain a number of covenants that could restrict our flexibility to finance future operations or capital needs, or to engage in other business activities that may be in our best interest. The debt covenants limit our ability, among other things, to:

- Encumber or dispose of assets;
- Incur indebtedness; and
- Engage in acquisitions.

In addition, with respect to the revolving credit facility, we must maintain a consolidated net worth of at least \$450 million and a leverage ratio not exceeding 3.25 to 1. We must also maintain a minimum interest coverage ratio of 2.5 to 1.

If we are unable to make required payments under the revolving credit facility or if we breach any of the debt covenants, we will be in default under the terms of the revolving credit facility. A default under the facility could cause acceleration of repayment of outstanding amounts as well as defaults under other existing and future debt obligations.

Volatility in LaSalle Investment Management Incentive Fee Revenues. With the growth in assets under management at LaSalle Investment Management, our portfolio is of sufficient size to periodically generate large incentive fees and, in some cases, equity gains that significantly contribute to our earnings and to the changes in earnings from one year to the next. However, volatility in this component of our earnings is inevitable due to the nature of this aspect of our business. In the case of our commingled funds, underlying market conditions, particular decisions regarding the acquisition and disposition of fund assets, and the specifics of the client mandate will determine the timing and size of incentive fees from one fund to another. For separate accounts, where asset management is ongoing, we may also earn incentive fees at periodic agreed-upon measurement dates, and that may be related to performance relative to specified real-estate indices (such as that published by the National Council of Real Estate Investment Fiduciaries (NCREIF)).

While LaSalle Investment Management has focused over the past several years on developing more predictable annuity-type revenues, incentive fees have been, and will continue to be, an important part of our revenues and earnings. As a result, the volatility described above should be expected to continue. For example, in 2006 we recognized one very significant incentive fee from the long-term performance of a separate account where we have ongoing portfolio management. This incentive fee was payable only once every four years and was calculated based on the account's performance above a real rate of return so long as the account's performance has exceeded a NCREIF-based index. The incentive fee will next be measured after a five-year performance period.

Currency Restrictions and Exchange Rate Fluctuations. We produce positive flows of cash in various countries and currencies that can be most effectively used to fund operations in other countries or to repay our indebtedness, which is currently primarily denominated in U.S. dollars. We face restrictions in certain countries that limit or prevent the transfer of funds to other countries or the exchange of the local currency to other currencies. We also face risks associated with fluctuations in currency exchange rates that may lead to a decline in the value of the funds produced in certain jurisdictions.

Additionally, although we operate globally, we report our results in U.S. dollars, and thus our reported results may be positively or negatively impacted by the strengthening or weakening of currencies against the U.S. dollar. As an example, the euro and the pound sterling, each a currency used in a significant portion of our operations, strengthened against the U.S. dollar over the course of 2006. For the year ended December 31, 2006, 65% of our operating income was attributable to operations with U.S. dollars as their functional currency, and 35% was attributable to operations having other functional currencies. In addition to the potential negative impact on reported earnings, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of the reported results of operations.

We are authorized to use currency-hedging instruments, including foreign currency forward contracts, purchased currency options and borrowings in foreign currency. There can be no assurance that such hedging will be economically effective. We do not use hedging instruments for speculative purposes.

The following table sets forth the revenues derived from our most significant currencies (based upon 2006 revenues, \$ in millions). The euro revenues include our businesses in France, Germany, Italy, Ireland, Spain, Portugal, Holland, Belgium and Luxembourg.

Most Significant Currencies on a Revenue Basis

		2006	2005
United States Dollar	\$	898.6	539.9
United Kingdom Pound		352.1	281.7
Euro		342.0	220.8
Australian Dollar		126.8	108.5
Other currencies		294.1	239.7
Total revenues	\$	2,013.6	1,390.6

Greater Difficulty in Collecting Accounts Receivable in Certain Countries and Regions. We face challenges to our ability to efficiently and/or effectively collect accounts receivable in certain countries and regions. For example, in Asia, many countries have underdeveloped insolvency laws, and clients often are slow to pay. In Europe, clients in some countries, particularly Spain, Italy and France, also tend to delay payments, reflecting a different business culture.

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Potentially Adverse Tax Consequences; Changes in Tax Legislation and Tax Rates. Moving funds between countries can produce adverse tax consequences in the countries from which and to which funds are transferred, as well as in other countries, such as the United States, in which we have operations. Additionally, as our operations are global, we face challenges in effectively gaining a tax benefit for costs incurred in one country that benefit our operations in other countries.

Changes in tax legislation or tax rates may occur in one or more jurisdictions in which we operate that may materially increase the cost of operating our business.

The charter and the amended bylaws of Jones Lang LaSalle and the Maryland general corporate law could delay, defer or prevent a change of control. The charter and bylaws of Jones Lang LaSalle include provisions that may discourage, delay, defer or prevent a takeover attempt that may be in the best interest of Jones Lang LaSalle shareholders and may adversely affect the market price of our common stock.

The charter and bylaws provide for:

- The ability of the board of directors to establish one or more classes and series of capital stock including the ability to issue up to 10,000,000 shares of preferred stock, and to determine the price, rights, preferences and privileges of such capital stock without any further shareholder approval;
- A requirement that any shareholder action taken without a meeting be pursuant to unanimous written consent; and
- Certain advance notice procedures for Jones Lang LaSalle shareholders nominating candidates for election to the Jones Lang LaSalle board of directors.

Under the Maryland General Corporate Law (the “MGCL”), certain “Business Combinations” (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any person who beneficially owns 10% or more of the voting power of the corporation’s shares or an affiliate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of the corporation (an “Interested Shareholder”) or an affiliate of the Interested Shareholder are prohibited for five years after the most recent date on which the Interested Shareholder became an Interested Shareholder. Thereafter, any such Business Combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding voting shares of the corporation and (2) 66 2/3% of the votes entitled to be cast by holders of outstanding voting shares of the corporation other than shares held by the Interested Shareholder with whom the Business Combination is to be effected, unless, among other things, the corporation’s shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Shareholder for its shares. Pursuant to the MGCL, these provisions also do not apply to Business Combinations approved or exempted by the board of directors of the corporation prior to the time that the Interested Shareholder becomes an Interested Shareholder.

Human Resources Risk Factors

Difficulties and Costs of Staffing and Managing International Operations. The coordination and management of international operations pose additional costs and difficulties. We must manage operations in many time zones and that involve people with language and cultural differences. Our success depends on finding and retaining people capable of dealing with these challenges effectively and who will represent the Company with the highest levels of integrity. If we are unable to attract and retain qualified personnel, or to successfully plan for succession of employees holding key management positions, our growth may be limited, and our business and operating results could suffer.

Among the challenges we face in retaining our people is maintaining a compensation system that rewards them consistent with local markets and with our profitability, which can be especially difficult where competitors may be attempting to gain market share by hiring our best people at rates of compensation that are well above the current market level. We have committed resources to effectively coordinate our business activities around the world to meet our clients' needs, whether they are local, regional or global. We also consistently attempt to enhance the establishment, organization and communication of corporate policies, particularly where we determine that the nature of our business poses the greatest risk of noncompliance. The failure of our people to carry out their responsibilities in accordance with our client contracts, our corporate and operating policies, or our standard operating procedures, or their negligence in doing so, could result in liability to clients or other third parties, which could have a material adverse effect on our business, operating results and/or financial condition.

When addressing staffing in connection with a restructuring of our organization or a downturn in economic conditions or activity, we must take into account the employment laws of the countries in which actions are contemplated, which, in some cases, can result in significant costs and/or time delays in implementing headcount reductions.

Noncompliance with Policies; Communications and Enforcement of Our Policies and Our Code of Business Ethics. The geographic and cultural diversity in our organization makes it more challenging to communicate the importance of adherence to our Code of Business Ethics and our Vendor Code of Conduct, to monitor and enforce compliance with its provisions on a worldwide basis, and to ensure local compliance with U.S. laws that apply globally, such as the Foreign Corrupt Practices Act, the Patriot Act and the Sarbanes-Oxley Act of 2002. We have introduced an Ethics Everywhere program to address these challenges and to attempt to maintain a high level of awareness about, and compliance with, our Code of Business Ethics. Breaches of our Code of Business Ethics, particularly by our executive management, could have a material adverse effect on our business, reputation, operating results and/or financial condition. Breaches of our Vendor Code of Conduct by vendors whom we retain as a principal for client engagements can also lead to significant losses to clients from financial liabilities that might result.

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Employee and Vendor Misconduct. Like any business, we run the risk that employee fraud or other misconduct could occur. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee misconduct, including fraud, can cause significant financial or reputational harm to any business, from which full recovery cannot be assured. We also may not have insurance that covers any losses in full or that covers losses from particular criminal acts. We do have a strong ethics policy, which is articulated in our Code of Business Ethics, and an overall Ethics Everywhere program that employs a number of different but complementary methods to reinforce the importance of integrity as our employees carry out their employment duties. In particular, we attempt to reinforce our commitment to sound ethics through regular employee communication, and we are continuously increasing our training efforts in this area.

Because we often hire third-party vendors to perform services for our own account or for clients, we are also subject to the consequences of fraud or misconduct by employees of our vendors, which can also result in significant financial or reputational harm (including as a practical matter even if we have been adequately protected from a legal standpoint). We have instituted a Vendor Code of Conduct, which is published in multiple languages on our public Web site, and which is intended to communicate to our vendors the standards of conduct we expect them to uphold.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal corporate holding company headquarters are located at 200 East Randolph Drive, Chicago, Illinois, where we currently occupy over 130,000 square feet of office space pursuant to a lease that expires in February 2016. Our regional headquarters for our Americas, EMEA and Asia Pacific businesses are located in Chicago, London and Singapore, respectively. We have 159 local offices worldwide located in most major cities and metropolitan areas as follows: 50 offices in 6 countries in the Americas (including 41 in the United States), 49 offices in 21 countries in EMEA and 60 offices in 13 countries in Asia Pacific. Our offices are each leased pursuant to agreements with terms ranging from month-to-month to 10 years. In addition, we have on-site property and other offices located throughout the world. On-site property management offices are generally located within properties that we manage and are provided to us without cost.

Item 3. Legal Proceedings

The Company has contingent liabilities from various pending claims and litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Many of these 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.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of Jones Lang LaSalle's shareholders during the fourth quarter of 2006.

Table of Contents**Part II****Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

Our Common Stock is listed for trading on the New York Stock Exchange under the symbol "JLL."

As of February 20, 2007, there were approximately 22.400 beneficial holders of our Common Stock.

The following table sets forth the high and low daily closing prices of our Common Stock as reported on the New York Stock Exchange.

		High		Low
2006				
Fourth Quarter	\$	93.21	\$	84.00
Third Quarter	\$	88.54	\$	75.92
Second Quarter	\$	90.70	\$	71.05
First Quarter	\$	76.54	\$	52.75
2005				
Fourth Quarter	\$	52.48	\$	45.05
Third Quarter	\$	50.65	\$	43.88
Second Quarter	\$	47.41	\$	36.90
First Quarter	\$	47.30	\$	34.54

Dividends

In October 2006, the Company announced that its Board of Directors declared a semi-annual dividend of \$0.35 per share of its common stock. The dividend payment was made on Friday, December 15, 2006 to holders of record at the close of business on Wednesday, November 15, 2006. This amount represents an increase of \$0.10 per share over the amount of the semi-annual dividend that was paid in June 2006. The current dividend plan approved by the Board anticipates a total annual dividend of \$0.70 per common share; however 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. A dividend-equivalent in the same amount also was paid simultaneously on outstanding but unvested restricted stock units granted under the Company's Stock Award and Incentive Plan.

Transfer Agent

Mellon Investor Services LLC
480 Washington Boulevard
Jersey City, New Jersey 07310

Equity Compensation Plan Information

For information regarding our equity compensation plans, including both shareholder approved plans and plans not approved by shareholders, see Item 12. Security Ownership of Certain Beneficial Owners and Management.

Comparison of 5 Year Cumulative Total Return

The following line graph compares Jones Lang LaSalle's cumulative shareholder return on its Common Stock to the cumulative total return of the Standard & Poor's 500 Stock Index and an industry peer group index (*Custom Industry Index*) for a five-year period extending through December 31, 2006. The Custom Industry Index is composed of a "new peer group" including the following other publicly traded real estate services companies: Grubb & Ellis Company and CB Richard Ellis Group Inc. from the time it issued public equity in 2004. CB Richard Ellis Group Inc. acquired all of the outstanding common stock of Trammell Crow Company in 2006. The graph below also includes an "old peer group" composed of Grubb & Ellis Company and Trammell Crow Company prior to the time that CB Richard Ellis Group Inc. issued public equity, and then includes CB Richard Ellis Group Inc. after it issued public equity in 2004. The graph assumes the investment of \$100 in Jones Lang LaSalle and each of the indices on December 31, 2001 and the reinvestment of all dividends. The return shown on the graph is not necessarily indicative of future performance.

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\$100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

		12/01	12/02	12/03	12/04	12/05	12/06
Jones Lang LaSalle Incorporated	\$	100.00	85.21	114.85	207.26	280.37	516.78
S & P 500		100.00	77.90	100.24	111.15	116.61	135.03
New Peer Group		100.00	34.58	29.49	157.63	280.26	466.02
Old Peer Group		100.00	73.22	105.74	155.59	264.87	365.30

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents**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)	Total number of shares purchased as part of publicly announced plans	Shares remaining to be purchased 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
October 1, 2006 - October 31, 2006	-	-	1,021,100	978,900
November 1, 2006 - November 30, 2006	-	-	1,021,100	978,900
December 1, 2006 - December 31, 2006	400,000	\$ 87.66	1,421,100	578,900
Total	801,900	\$ 80.75		

(1) Total average price paid per share is a weighted average for the 12-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 December 31, 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 restricted 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:

Repurchase Plan Approval Date	Shares Approved for Repurchase	Shares Repurchased through December 31, 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	1,421,100
		4,749,651

Table of Contents**Item 6. Selected Financial Data (Unaudited)**

The following table sets forth our summary historical consolidated financial data. The information should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	2006	2005	2004	Year Ended December 31,	
				2003	2002
	(in thousands, except share data)				
Statement of Operations Data:					
Total revenue	\$ 2,013,578	1,390,610	1,166,958	941,894	859,990
Operating income	244,079	131,751	89,521	54,235	52,114
Interest expense, net of interest income	14,254	3,999	9,292	17,861	17,024
Loss on extinguishment of Senior Notes	—	—	11,561	—	—
Equity in earnings from real estate ventures	9,221	12,156	17,447	7,951	2,581
Income before provision for income taxes and minority interest	239,046	139,908	86,115	44,325	37,671
Provision for income taxes	63,825	36,236	21,873	8,260	11,037
Minority interest in earnings of subsidiaries	—	—	—	—	711
Net income before extraordinary item and cumulative effect of change in accounting principle	175,221	103,672	64,242	36,065	25,923
Extraordinary gain on the acquisition of minority interest, net of tax (1)	—	—	—	—	341
Cumulative effect of change in accounting principle, net of tax (2)	1,180	—	—	—	846
Net income	\$ 176,401	103,672	64,242	36,065	27,110
Dividends on unvested common stock, net of tax	1,057	385	—	—	—
Net income available to common shareholders	\$ 175,344	103,287	64,242	36,065	27,110

Basic earnings per common share before extraordinary item, cumulative effect of change in accounting principle and dividends on unvested common stock	\$	5.50	3.30	2.08	1.17	0.85
Extraordinary gain on the acquisition of minority interest, net of tax (1)		—	—	—	—	0.01
Cumulative effect of change in accounting principle, net of tax (2)		0.03	—	—	—	0.03
Dividends on unvested common stock, net of tax		(0.03)	(0.01)	—	—	—
Basic earnings per common share	\$	5.50	3.29	2.08	1.17	0.89
Basic weighted average shares outstanding		31,872,112	31,383,828	30,887,868	30,951,563	30,486,842
Diluted earnings per common share before extraordinary item, cumulative effect of change in accounting principle and dividends on unvested common stock	\$	5.24	3.13	1.96	1.12	0.81
Extraordinary gain on the acquisition of minority interest, net of tax (1)		—	—	—	—	0.01
Cumulative effect of change in accounting principle, net of tax (2)		0.03	—	—	—	0.03
Dividends on unvested common stock, net of tax		(0.03)	(0.01)	—	—	—
Diluted earnings per common share	\$	5.24	3.12	1.96	1.12	0.85
Diluted weighted average shares outstanding		33,447,939	33,109,261	32,845,281	32,226,306	31,854,397
Other Data:						
EBITDA (3)	\$	303,444	177,743	128,788	99,130	92,296
Ratio of earnings to fixed charges (4)		6.99X	6.75X	3.90X	2.15X	2.06X

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Cash flows provided by (used in):

Operating activities	\$ 377,703	120,636	161,478	110,045	68,369
Investing activities	(306,360)	(61,034)	(27,565)	(15,282)	(26,340)
Financing activities	(49,389)	(61,087)	(166,875)	(45,312)	(38,821)

Investments under management (5)	\$ 40,600,000	29,800,000	24,100,000	23,000,000	23,200,000
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Total square feet under management	1,024,000	903,000	835,000	725,000	735,000
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Balance Sheet Data:

Cash and cash equivalents	\$ 50,612	28,658	30,143	63,105	13,654
Total assets	1,729,948	1,144,769	1,012,377	942,940	852,516
Total debt	50,136	44,708	58,911	211,408	215,008
Total liabilities	979,568	608,766	504,397	511,949	485,558
Total shareholders' equity	750,380	536,003	507,980	430,991	366,958

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(1) In December 2002, we exercised our option to purchase the remaining 45% interest in the joint venture company Jones Lang LaSalle Asset Management Services, which exclusively provides asset management services for all Skandia Life properties in Sweden. The purchase price was below the fair value of the assets acquired, resulting in an after-tax extraordinary gain of \$0.3 million.

(2) The cumulative effect of change in accounting principle in 2006 is the result of our adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"). As a result of adopting SFAS 123R on January 1, 2006, we credited \$1.2 million to the income statement, as the cumulative effect of a change in accounting principle, which represented the expense recognized in prior years on shares we expect to be forfeited prior to their vesting date. The cumulative effect of change in accounting principle in 2002 is the result of our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). As a result of adopting SFAS 142 on January 1, 2002, we credited \$0.8 million to the income statement, as the cumulative effect of a change in accounting principle, which represented our negative goodwill balance at January 1, 2002.

(3) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. Although EBITDA is a non-GAAP financial measure, our management believes that EBITDA is a useful analytical tool, that it is useful to investors as one of the primary metrics for evaluating operating performance and liquidity, and that an increase in EBITDA is an indicator of improved ability to service existing debt, to sustain potential future increases in debt and to satisfy capital requirements. EBITDA also is used in the calculation of certain covenants related to our revolving credit facility. However, EBITDA should not be considered as an alternative either to net income or net cash provided by operating activities, both of which are determined in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Because EBITDA is not calculated under U.S. GAAP, our EBITDA may not be comparable to similarly titled measures used by other companies.

Below is a reconciliation of our EBITDA to net income (\$ in thousands):

		2006	2005	2004	Year Ended December 31,	
					2003	2002
Net income	\$	176,401	103,672	64,242	36,065	27,110
Interest expense, net of interest income		14,254	3,999	9,292	17,861	17,024
Provision for income taxes		63,825	36,236	21,873	8,260	11,037
Depreciation and amortization		48,964	33,836	33,381	36,944	37,125
EBITDA	\$	303,444	177,743	128,788	99,130	92,296

Below is a reconciliation of our EBITDA to net cash provided by operating activities, the most comparable cash flow measure on the statements of cash flows (\$ in thousands):

		2006	2005	2004	Year Ended December 31,	
					2003	2002
Net cash provided by operating activities	\$	377,703	120,636	161,478	110,045	68,369
Interest expense, net of interest income		14,254	3,999	9,292	17,861	17,024
Provision for income taxes		63,825	36,236	21,873	8,260	11,037
Change in working capital and non-cash						

expenses	(152,338)	16,872	(63,855)	(37,036)	(4,134)
EBITDA	\$ 303,444	177,743	128,788	99,130	92,296

(4) For purposes of computing the ratio of earnings to fixed charges, “earnings” represents net earnings before income taxes plus fixed charges, less capitalized interest. Fixed charges consist of interest expense, including amortization of debt discount and financing costs, capitalized interest and one-third of rental expense, which we believe is representative of the interest component of rental expense.

(5) Investments under management represent the aggregate fair market value or cost basis (where an appraisal is not available) of assets managed by our Investment Management segment as of the end of the periods reflected.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Selected Financial Data and Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this Form 10-K. The following discussion and analysis contains certain forward-looking statements 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 that 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 after Part IV, Item 15. Exhibits and Financial Statement Schedules.

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, our profits produce strong cash returns. Over the past five 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.

In 2006, our Board declared and paid a total annual dividend of \$0.60 per common share and anticipated paying a total annual dividend in 2007 of \$0.70 per share. We do not believe that the payment of the dividend will preclude us from continuing the above other uses of cash.

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:

- Money Management;
- Local Market Services;
- Capital Markets and Real Estate Investment Banking; and
- Occupier Services.

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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 continue to create new value for our clients, shareholders and employees, in early 2005 we identified five strategic priorities for continued growth. We refer to them 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 have defined 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 from more than 150 offices around the world. We believe that we can leverage our established business presence in the world’s principal real estate markets to provide expanded local and regional services without a proportionate increase in infrastructure costs.

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 Solutions 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 and Real Estate Investment Banking. 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. Our real estate investment banking capability helps provide capital and other financial solutions by which our clients can maximize the value of their real estate.

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 globally integrated infrastructure resources they need to create sustainable value for our clients. As we fully leverage the investments we have made in our infrastructure, we will have a global platform that will allow us to perform our services in an increasingly efficient, integrated and consistent manner.

We committed resources to all G5 priorities during 2005 and 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

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 —

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 the more annuity revenue category of advisory fees. 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. In 2006, these funds, which exist in all three global regions, attracted approximately \$800 million in investments, bringing the total we have allocated to these funds to approximately \$2.6 billion. 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.

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 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.

Capital Markets and Real Estate Investment Banking

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. As more and more real estate assets are marketed internationally, and as a growing number of clients are investing outside their home markets, our Capital Markets Services teams combine local market knowledge with our access to global capital sources to provide clients with superior execution in raising capital for their real estate assets. Capital Markets Services units are typically compensated on the basis of the value of transactions completed or securities placed. In certain circumstances, we receive retainer fees for portfolio advisory services. By researching, developing and introducing innovative new financial products and strategies, Capital Markets Services is integral to the business development efforts of our other businesses.

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Real Estate Investment Banking Services includes sourcing capital, both in the form of equity and debt, derivatives structuring and other traditional investment banking services designed to assist corporate clients in maximizing the value of their real estate. 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 trans-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.

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 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.

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. 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 amounts 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.

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. 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 revenue as advisory and management fees, transaction commissions, incentive fees, project and development management fees 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 revenue until the respective contingencies have been satisfied. Incentive fees are recognized based on the performance of underlying funds’ investments and the contractual benchmarks, formulas and timing of the measurement period with clients. Project and development management fees 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 toward completion for project and development management fees and costs incurred to total estimated costs for construction management fees.

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 Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred” (“EITF 01-14”). Accordingly, we have recorded these reimbursements as revenues in the income statement, as opposed to being shown as a reduction of expenses.

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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 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 characterization 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 utilize 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 \$746 million, \$549 million and \$430 million in 2006, 2005 and 2004, respectively. This treatment has no impact on operating income, net income or cash flows.

Allowance for Uncollectible Accounts Receivable

We estimate the allowance necessary to provide for uncollectible accounts receivable. This estimate includes specific accounts for which payment has become unlikely. We also base this estimate on historical experience, combined with a careful review of current developments and with a strong focus on credit quality. The process by which we calculate the allowance begins in the individual business units where specific problem accounts are identified and reserved as part of an overall reserve that is formulaic and driven by the age profile of the receivables. These allowances are then reviewed on a quarterly basis by regional and global management to ensure they are appropriate. As part of this review, we develop a range of potential allowances on a consistent formulaic basis. We would normally expect that the allowance would fall within this range. Our allowance for uncollectible accounts receivable as determined under this methodology was \$7.8 million and \$5.6 million at December 31, 2006 and 2005, respectively.

Over the past several years we have placed considerable focus on working capital management and, in particular, collecting our receivables in a more timely manner. Our bad debt expense as a percentage of revenues has been reduced as we have been successful in working capital management and collecting receivables more timely. Bad debt expense was \$3.6 million, \$2.2 million and \$3.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. Bad debt expense recorded for 2004 includes the settlement of a disputed receivable in Europe in which a settlement expense of \$0.7 million was incurred in the second quarter, as well as a \$1.6 million charge in the fourth quarter related to a single counterparty attempting to renegotiate a contractual fee from an Investment Management transaction. With the exception of these two specific significant events, bad debt expense was less than two-tenths of one percent of total revenues in each year from 2004 to 2006. Considering our growth in revenues and receivables

over the last several years, we believe this level of bad debt expense reflects effective efforts in working capital management.

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% (and up to 48.78% as of January 2007) 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 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. We account for such general partner interests under the equity method.

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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 (namely, 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.

Asset Impairments

Within the balances of property and equipment used in our business, we have computer equipment and software; leasehold improvements; furniture, fixtures and equipment; and automobiles. The largest assets on our balance sheet are goodwill and other intangibles resulting from a series of acquisitions and one substantial merger. We also 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 generally account for these interests under the equity method of accounting in the accompanying Consolidated Financial Statements due to the nature of our non-controlling ownership.

- **Property and Equipment** - We apply Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), to recognize and measure impairment of property and equipment owned or under capital lease. We review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable. If impairment exists due to the inability to recover the carrying value of an asset group, we record an impairment loss to the extent that the carrying value exceeds the estimated fair value. We did not recognize an impairment loss related to property and equipment in 2006, 2005 or 2004.
- **Goodwill and Other Intangible Assets** - We apply SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), when accounting for goodwill and other intangible assets. 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 2006, 2005 and 2004 evaluations was that the fair value of each reporting unit exceeded its carrying amount, and therefore we did not recognize an impairment loss in any of those years.
- **Investments in Real Estate Ventures** - 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 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 real estate 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, we use a discounted cash flow approach 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.

There were no impairment charges in equity earnings in 2006. There were \$1.8 million of such impairment charges to equity earnings in 2005, representing our equity share of the impairment charges against individual assets held by these ventures. There were \$1.1 million of such charges to equity earnings in 2004.

Additionally, since the 2001 closing of our Land Investment Group and sale of our Development Group, we have recorded net impairment charges related to investments originated by these groups to restructuring expense. There were \$0.7 million and \$0.4 million of net credits to restructuring expense in 2006 and 2005, respectively, related to cash received from sales of land previously written down to a net book value of \$0 in the Land Investment Group. There were \$0.6 million of net charges in 2004 related to the partial liquidation of two Land Investment Group assets, the writedown of a third Land Investment Group asset and the liquidation of our final Development Group investment. These restructuring charges are also discussed in the Land Investment and Development Group section in Note 4 of the Notes to Consolidated Financial Statements.

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 attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and 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.

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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.

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 forecast 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.

We achieved an effective tax rate of 26.7% in 2006 and 25.9% in 2005, which reflected our continued disciplined management of the global tax position.

Based on our historical experience and future business plans, we do not expect to repatriate our foreign source earnings to the United States. As a result, we have not provided deferred taxes on such earnings or the difference between tax rates in the United States and the various international jurisdictions where such amounts were earned. Further, there are various limitations on our ability to utilize foreign tax credits on such earnings when repatriated. As such, we may incur taxes in the United States upon repatriation without credits for foreign taxes paid on such earnings.

We have established valuation allowances against deferred tax assets where expected future taxable income does not support their probable realization. We formally assess the likelihood of being able to utilize current tax losses in the future on a country-by-country basis, with the determination of each quarter's income tax provision; and we establish or increase valuation allowances upon specific indications that the carrying value of a tax asset may not be recoverable, or alternatively we reduce valuation allowances upon specific indications that the carrying value of the tax asset is more likely than not recoverable or upon the implementation of tax planning strategies allowing an asset previously determined not realizable to be viewed as realizable. The table below summarizes certain information regarding the gross deferred tax assets and valuation allowance for the past three years (\$ in millions):

		2006	2005	December 31, 2004
Gross deferred tax assets	\$	108.9	115.1	95.0
Valuation allowance		2.4	5.3	9.3

The decrease in gross deferred tax assets from 2005 to 2006 was the result of the usage of net operating loss carryforwards in 2006, with much of that decrease being offset by the growth in expense accruals not yet deductible. The increase in gross deferred tax assets from 2004 to 2005 was the result of growth in expense accruals not yet deductible, and in U.S. federal and state loss carryforwards.

We evaluate our segment operating performance before tax, and do not consider it meaningful to allocate tax by segment. Estimations and judgments relevant to the determination of tax expense, assets and liabilities require analysis of the tax environment and the future profitability, for tax purposes, of local statutory legal entities rather than business segments. Our statutory legal entity structure generally does not mirror the way that we organize, manage and report our business operations. For example, the same legal entity may include both Investment Management and IOS businesses in a particular country.

Incentive Compensation

An important part of our overall compensation package is incentive compensation, which we typically pay to our employees in the first quarter of the year after it is earned. Certain employees receive a portion of their annual incentive compensation in the form of restricted stock units of our common stock under programs in which the restricted units vest over periods of up to 64 months from the date of grant. Under each program, we amortize related compensation cost to expense over the service period.

The most significant of these programs under which restricted stock units are granted is the stock ownership program. Incentive compensation deferred under the stock ownership program is enhanced by 25 percent when determining the value of restricted stock units to be granted. These restricted units vest in two parts: 50% at 18 months and 50% at 30 months, in each case from the date of grant (namely, vesting periods start in January of the year following that for which the bonus was earned). The service period over which the related compensation cost is amortized to expense consists of the 12 months of the year to which payment of the restricted stock relates, plus the periods over which the stock vests. Given that we do not finalize individual incentive compensation awards until after year-end, we must estimate the portions of the overall incentive compensation pools that will qualify for these programs. Estimations factor in the performance of the Company and individual business units, together with the target bonuses for qualified individuals.

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We determine, announce and pay incentive compensation in the first quarter of the year following that to which the incentive compensation relates, at which point we true-up the estimated stock ownership program deferral and related amortization. The table below sets forth certain information regarding the stock ownership program (\$ in millions, except employee data):

	2006	Year Ended December 31,	
		2005	2004
Number of employees qualified for the restricted stock programs	1,200	1,000	800
Deferral of compensation under the stock ownership program	\$ (28.8)	(23.1)	(18.4)
Enhancement of deferred compensation	(7.2)	(5.8)	(4.4)
Decrease to deferred compensation in the first quarter of the following year	N/A	0.3	0.9
Total deferred compensation	\$ (36.0)	(28.6)	(21.9)
Compensation expense recognized with regard to the current year			
stock ownership program	\$ 11.3	10.1	8.2
Compensation expense recognized with regard to prior year			
stock ownership programs	15.8	9.6	7.1
Total stock ownership program compensation expense	\$ 27.1	19.7	15.3

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 and employment practices 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.

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 2006 program is \$6.9 million at December 31, 2006.

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The table below sets out certain information related to the cost of the health insurance program for the years ended December 31, 2006, 2005 and 2004 (\$ in millions):

		2006	2005	2004
Expense to company	\$	11.6	7.9	7.5
Employee contributions		3.7	2.6	1.9
Adjustment to prior year reserve		(0.3)	(0.5)	(0.7)
Total program cost	\$	15.0	10.0	8.7

- **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 workers' 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 for the years ended December 31, 2006, 2005 and 2004 were \$3.0 million, \$3.7 million and \$3.6 million, respectively.

The table below sets out the range and our actual reserve for the past three years (\$ in millions):

		Maximum Reserve	Minimum Reserve	Actual Reserve
December 31, 2006	\$	8.4	7.8	8.4
December 31, 2005		7.6	7.0	7.6
December 31, 2004		6.8	6.2	6.8

Given the uncertain nature of claim reporting and settlement patterns associated with workers' compensation insurance, we have accrued at the higher end of the range.

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- **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 and employment practices liability 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 No. 5, "Accounting for Contingencies" ("SFAS 5").

The table below provides details of the year-end reserves, which can relate to multiple years, that we have established as of (\$ in millions):

	Reserve at Year-End
December 31, 2006	\$ 7.9
December 31, 2005	10.9
December 31, 2004	6.7

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 believes that the application of FIN 48 will not have a material impact on our consolidated financial statements.

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 accordance with SFAS 87, "Employers' Accounting for Pensions," but requires recognition on the balance sheet of the funded status of a defined benefit postretirement plan as an asset or liability, with changes in the funded status 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. See Note 8 of Notes to Consolidated Financial Statements for detail of the increase to pension benefits liability and reduction in accumulated other comprehensive income as of December 31, 2006 resulting from the application of SFAS 158.

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. The application of SAB 108 has resulted in no adjustment to our consolidated financial statements as of or for the year ended December 31, 2006.

Items Affecting Comparability

Restructuring Charges (Credits)

For the years ended December 31, 2006, 2005 and 2004, net restructuring charges (credits) totaled \$(0.7) million, \$1.4 million and \$5.3 million, respectively. See Note 4 of the Notes to Consolidated Financial Statements for more information regarding restructuring charges (credits).

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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 2006, the Firm recognized a gross incentive fee of \$112.5 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 3 of the 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. As a result, we provide information about the impact of foreign currencies in the period-to-period comparisons of the reported results of operations in our discussion and analysis of financial condition in the Results of Operations section below.

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 \$205.2 million during 2006, and the effective interest rate on that facility was 5.1%. As of December 31, 2006, we had \$32.4 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 the years ended December 31, 2006 and 2005, and we had no such agreements outstanding at December 31, 2006.

The effective interest rate on our debt was 5.1% in 2006, compared to 3.9% in 2005. The increase in the effective interest rate is primarily due to higher interest rates during 2006 compared with 2005. A 50 basis point increase in the effective interest rate on the revolving credit facility would have increased our net interest expense by \$1.0 million during 2006 and by \$0.5 million during 2005, the increase resulting from higher average borrowings during 2006 compared with 2005.

Foreign Exchange

Foreign exchange risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. Currently, our revenues outside of the United States totaled 55% of our total revenues in 2006 and 61% in 2005. Operating in international markets means that we are exposed to movements in foreign exchange rates, primarily related to the British pound (17% of 2006 revenues and 20% of 2005 revenues) and the euro (17% of 2006 and 16% of 2005 revenues).

We mitigate our foreign currency exchange rate 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 European region headquarters being located in London act as a partial operational hedge against our revenue exposure to British pounds.

We enter into forward foreign currency exchange contracts to manage currency risks associated with intercompany loan balances. At December 31, 2006, we had forward exchange contracts in effect with a gross notional value of \$379.3 million (\$357.3 million on a net basis) with a market and carrying loss of \$0.2 million. This carrying loss is offset by a carrying gain in associated intercompany loans such that the net impact to earnings is not significant.

Table of Contents**Seasonality**

Our revenues and profits tend to be significantly higher in the third and fourth quarters of each year than in the first two quarters. This is a 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 through the year. Historically, we have reported an operating loss or a relatively small profit in the first quarter and then increasingly larger profits during each of the following three quarters, excluding the recognition of investment-generated performance fees and co-investment equity gains (both of which can be particularly unpredictable). Such performance fees and co-investment equity gains are generally earned when assets are sold, the timing of which is geared toward 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.

Results of Operations

We operate in a variety of currencies, but report our results in U.S. dollars, which means that our reported results may be positively or negatively impacted by the volatility of those currencies against the U.S. dollar. This volatility means that the reported U.S. dollar revenues and expenses demonstrate apparent growth rates between years that may not be consistent with the real underlying growth rates in the local operations. In order to provide more meaningful year-to-year comparisons of the reported results, we have included detail of the movements in certain reported lines of the Consolidated Statement of Earnings (\$ in millions) in both U.S. dollars and in local currencies in the tables throughout this section.

Reclassifications

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

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.

We report ‘equity in earnings from real estate ventures’ in the consolidated statement of earnings after ‘operating income.’ However, for segment reporting we reflect ‘equity in earnings from real estate ventures’ within ‘total revenue.’ See Note 3 of the Notes to Consolidated Financial Statements for ‘equity earnings (losses)’ reflected within segment revenues, as well as discussion of how the chief operating decision maker (as defined in Note 3) measures segment results with ‘equity earnings (losses)’ included in segment revenues.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

	2006	2005	Increase (Decrease)	% Change in U.S. Dollars	% Change in Local Currencies
Total revenue	\$ 2,013.6	\$ 1,390.6	\$ 623.0	45%	43%
Compensation & benefits	1,313.3	902.7	410.6	45%	44%
Operating, administrative & other	408.0	320.9	87.1	27%	26%
Depreciation & amortization	48.9	33.8	15.1	45%	44%
Restructuring	(0.7)	1.4	(2.1)	n.m.	n.m.
Total operating expenses	1,769.5	1,258.8	510.7	41%	39%

Operating income	\$	244.1	\$	131.8	\$	112.3		85%		78%
(n.m. - not meaningful)										

Revenue

Revenues for the year ended 2006 were \$2.01 billion, an increase of 45% from the prior year that resulted from growth in all operating segments. Included in the Firm's 2006 full-year results was an incentive fee from a single client of \$112.5 million at a 41% operating income margin.

See Segment Operating Results below for additional discussion of revenues.

Operating Expenses

Operating expenses were \$1.77 billion in 2006 and \$1.26 billion in 2005, an increase of approximately 41% in U.S. dollars and 39% in local currencies from the prior year. The increase in operating expenses was driven by significant additions in global Capital Markets and Leasing broker teams, additional client-service staff, and by the expansion of offices to support the global business platform. Also contributing to the increase were the operations added through five strategic acquisitions, including Spaulding & Slye in the Americas, which closed in January 2006. Higher incentive compensation costs related to the strong revenue and profit performance contributed to the increase, as well.

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Operating Income

Operating income for the year ended 2006 was \$244.1 million, compared to \$131.8 million in the prior year, an increase of 85%. From 2005 to 2006, revenue increased \$623.0 million while operating expenses increased \$510.7 million. The increase in operating margin resulted from operating, administrative and other costs increasing at a lower rate than revenues when compared to the prior year (27% compared to 45%), a significant portion of which was achieved as a result of the \$112.5 million incentive fee noted above.

Interest Expense

Interest expense of \$14.3 million for the 2006 full year was higher than the \$4.0 million for 2005 due to higher debt balances throughout the year compared with 2005. The higher debt balances during the year resulted from acquisition spending totaling \$191.7 million, share repurchases of \$64.8 million, including \$35.1 million in the fourth quarter, and net co-investment funding of \$44.3 million in connection with growth in the Firm's investment management business. Despite these significant cash uses, the Firm had no net debt (i.e., cash and cash equivalents exceeded short-term borrowings and borrowings under credit facilities) at year end.

Provision for Income Taxes

The provision for income taxes was \$63.8 million in 2006 as compared to \$36.2 million in 2005. The increase in the tax provision is primarily due to improved business performance. The effective tax rate was 26.7% in 2006 as compared to 25.9% in 2005. See Note 9 of the Notes to Consolidated Financial Statements for a further discussion of our effective tax rate.

Net Income

Net income of \$176.4 million for 2006 represented an increase of 70% over the prior year's net income of \$103.7 million. The increase was driven by growth in all operating segments, part of which was due to the \$112.5 million incentive fee at a 41% operating income margin described above.

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, real estate investment banking and valuation services (collectively "implementation services"); and property management, facilities management, and project and development services (collectively "management services").

We have not allocated restructuring charges to the business segments for segment reporting purposes and therefore these costs are not included in the discussions below. Also, for segment reporting we continue to show equity in earnings from real estate ventures within our revenue line, especially since it is a very integral part of our Investment Management segment.

Americas - Investor and Occupier Services

		2006		2005		Increase	% Change
Revenue	\$	625.4	\$	435.3	\$	190.1	44%
Operating expense		559.8		385.0		174.8	45%
Operating income	\$	65.6	\$	50.3	\$	15.3	30%

The Americas region continued its momentum through the end of the year. Revenue for the full year 2006 was \$625.4 million, an increase of 44% over the prior year, and fourth-quarter revenue was \$227 million, an increase of 38%. Compared with 2005, Transaction Services revenue increased 57% for the full year and 45% for the quarter while Management Services grew 31% for the year and 27% for the quarter.

The current year's strong performance benefited from growth in both the Markets group, whose focus is to maximize the Firm's competitive position in key local markets, and the Accounts organization, whose focus is on delivering services and strategic advice to corporate clients. Revenue in the Markets and Accounts groups increased by a combined 47% for the full year compared with the prior year. The Spaulding & Slye acquisition had a significant impact on year-over-year revenue growth in both Markets and Accounts. Strong performance in Capital Markets also contributed to the annual year-over-year revenue growth with a 74% increase over the previous year. Revenue in the Firm's Americas Hotels business was up 46% in 2006 compared with the prior year as a result of the business' strong position in a healthy industry environment.

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Total operating expenses increased 45% for the full year and 43% for the quarter compared with 2005. The increase in operating expenses resulted from significant additions to the local market teams and from operations added through the Spaulding & Slye acquisition. In addition, incentive compensation expenses increased as a result of the growth in both revenue-generating activities and profit performance.

EMEA - Investor and Occupier Services

	2006	2005	Increase	% Change in U.S. Dollars	% Change in Local Currencies
Revenue	\$ 679.3	\$ 492.8	\$ 186.5	38%	34%
Operating expense	635.3	468.3	167.0	36%	32%
Operating income	\$ 44.0	\$ 24.5	\$ 19.5	80%	54%

EMEA's full-year revenue grew 38% and 34% in U.S. dollars and local currencies, respectively, to \$679.3 million, and fourth-quarter revenue increased 53% in U.S. dollars and 39% in local currencies to \$270 million. Transaction Services revenue grew 44% for the full year to \$557 million, and 54% for the quarter, while Management Services revenue grew 19% for the year to \$114 million, and 67% for the quarter. Year-over-year annual revenue growth in the region was driven by strong performance in Capital Markets, which was up 70% for the year driven by increased market share and strong underlying market conditions, and by Agency Leasing, which grew 26%. We completed four strategic acquisitions in the region in 2006 (in the United Kingdom, Spain, and United Arab Emirates) and opened six new offices which, together with hiring, resulted in the addition of approximately 350 revenue-generators in the year.

Geographically, the region's robust full-year growth was driven primarily by France and Germany. Revenue in France grew 83% in U.S. dollars for the full year and 60% for the fourth quarter compared with the prior year, while Germany had an increase of 58% for the full year and 45% for the quarter. Russia continued its strong growth with full year revenue doubling compared with the prior year, while very favorable trends continued in Central and Eastern Europe and Spain. The EMEA Hotels business also had solid growth with annual revenues up almost 30% compared with the prior year.

Operating expenses increased by 36% in U.S. dollars and 32% in local currencies on a full-year basis and by 56% in U.S. dollars and 43% in local currencies for the quarter. The increase was primarily due to acquisitions, staff additions to service clients and grow market share, and increased incentive compensation driven by improved revenue and profit performance.

Asia Pacific - Investor and Occupier Services

	2006	2005	Increase (Decrease)	% Change in U.S. Dollars	% Change in Local Currencies
Revenue	\$ 337.1	\$ 272.9	\$ 64.2	24%	24%
Operating expense	318.5	252.9	65.6	26%	27%
Operating income	\$ 18.6	\$ 20.0	\$ (1.4)	(7)%	(7)%

Revenue for the Asia Pacific region on a full-year basis was \$337.1 million, an increase of 24% in both U.S. dollars and local currencies, and \$124 million for the fourth quarter, an increase of 35% in U.S. dollars and 31% in local currencies from the prior year. Growth for the full year and fourth quarter in U.S. dollars resulted from both Transaction Services revenue, which increased 22% and 32%, respectively, and Management Services revenue, which increased 20% and 38%, respectively.

Geographically, the strongest profit contributions were from the region's largest market, Australia, and from the growth markets of China and Korea. Revenue in Australia grew 22% for the year and 26% for the quarter, while revenue in China increased 60% for the year and 64% for the quarter, compared with the prior year. Korea's revenue for the year was up 69%, and finished the year strongly with fourth-quarter 2006 revenue more than double compared with the prior year. India and Singapore also made significant revenue growth contributions. The leading Asian Hotels business recorded a very strong finish in 2006 with revenue almost tripling in the last quarter compared with the prior year and with revenue for the full year up 33% as a result of higher transaction volume and increased market share. Offsetting the region's growth was a decline in Japan, where Capital Markets activity was lower in 2006 compared with 2005, which included several significant transactions.

Operating expenses on a full-year basis for the Asia Pacific region increased 26% in both U.S. dollars and local currencies, and for the fourth quarter increased 34% in U.S. dollars and 30% in local currencies, over the prior year. The increase was the result of expansion of the geographic platform, service capabilities and infrastructure throughout the region.

Operating income decreased from \$20.0 million in 2005 to \$18.6 million in 2006. Included in 2006's full year results were expenses of approximately \$1.7 million for net transition costs incurred to outsource the management of the region's IT infrastructure, call centers and application development, positioning the region for future growth. The 2005 full-year results included a benefit of \$2.4 million received from a litigation settlement. Excluding the impact of these items, operating income for the region would have increased from \$17.6 million in 2005 to \$20.3 million in 2006, with operating income margins flat at approximately six percent. The firm is now well-positioned with a leading market share in the region to capitalize on the anticipated growth.

Table of Contents**Investment Management**

	2006	2005	Increase (Decrease)	% Change in U.S. Dollars	% Change in Local Currencies
Revenue	\$ 377.3	\$ 190.8	186.5	98%	94%
Equity in earnings from real estate ventures	7.1	11.9			