JONES LANG LASALLE INC
Form 10-Q
August 06, 2010
Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended **June 30, 2010**

Or

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

For the transition period from ______ to ______

Commission File Number 1-13145

Jones Lang LaSalle Incorporated

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

36-4150422

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

200 East Randolph Drive, Chicago, IL	**60601**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock (par value $0.01) as of the close of business on August 2, 2010 was 42,635,556.

Table of Contents

Table of Contents

Table of Contents

Part I Financial Information

Item 1. Financial Statements

JONES LANG LASALLE INCORPORATED

Consolidated Balance Sheets

June 30, 2010 and December 31, 2009

($ in thousands, except share data)

Assets	June 30, 2010 (unaudited)	December 31, 2009
Current assets:		
Cash and cash equivalents	$ 54,994	69,263
Trade receivables, net of allowances of $33,044 and $36,994	621,523	669,993
Notes and other receivables	80,035	73,984
Prepaid expenses	41,729	35,689
Deferred tax assets	79,985	82,793
Other	16,443	8,196
Total current assets	894,709	939,918
Property and equipment, net of accumulated depreciation of $307,755 and $290,250	192,498	213,708
Goodwill, with indefinite useful lives	1,399,668	1,441,951
Identified intangibles, with finite useful lives, net of accumulated amortization of $75,203 and $71,422	30,856	36,791
Investments in real estate ventures	162,106	167,310
Long-term receivables, net	46,376	52,941
Deferred tax assets, net	139,283	139,406
Other	101,642	104,908
Total assets	$ 2,967,138	3,096,933
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 300,903	347,650
Accrued compensation	302,341	479,628
Short-term borrowings	63,737	23,399
Deferred tax liabilities	1,164	1,164
Deferred income	36,775	38,575
Deferred business acquisition obligations	92,393	106,330
Other	105,069	98,349
Total current liabilities	902,382	1,095,095
Noncurrent liabilities:		
Credit facilities	268,000	175,000
Deferred tax liabilities	7,797	3,210
Deferred compensation	21,013	27,039
Pension liabilities	6,579	8,210
Deferred business acquisition obligations	279,334	287,259
Minority shareholder redemption liability	33,273	32,475
Other	72,448	86,031
Total liabilities	1,590,826	1,714,319
Commitments and contingencies		
Company shareholders equity:		
Common stock, $.01 par value per share, 100,000,000 shares authorized;		
42,059,599 and 41,843,947 shares issued and outstanding	421	418
Additional paid-in capital	870,368	854,227
Retained earnings	559,188	531,456

Shares held in trust	(5,003)	(5,196)
Accumulated other comprehensive loss	(51,532)	(1,976)
Total Company shareholders equity	1,373,442	1,378,929
Noncontrolling interest	2,870	3,685
Total equity	1,376,312	1,382,614
Total liabilities and equity	$ 2,967,138	3,096,933

See accompanying notes to consolidated financial statements.

3

Table of Contents

JONES LANG LASALLE INCORPORATED

Consolidated Statements of Operations

For the Three and Six Months Ended June 30, 2010 and 2009

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue	$ 680,319	576,138	$ 1,260,981	1,070,350
Operating expenses:				
Compensation and benefits	438,408	381,376	825,789	723,931
Operating, administrative and other	163,042	140,653	319,495	278,276
Depreciation and amortization	17,532	21,367	35,246	45,887
Restructuring charges	3,996	15,386	5,116	32,428
Total operating expenses	622,978	558,782	1,185,646	1,080,522
Operating income (loss)	57,341	17,356	75,335	(10,172)
Interest expense, net of interest income	12,918	14,528	24,248	27,286
Equity in losses from unconsolidated ventures	(2,796)	(19,248)	(8,924)	(51,271)
Income (loss) before income taxes and noncontrolling interest	41,627	(16,420)	42,163	(88,729)
Provision (benefit) for income taxes	9,574	(2,463)	9,698	(13,310)
Net income (loss)	32,053	(13,957)	32,465	(75,419)
Net income attributable to noncontrolling interest	78	190	246	202
Net income (loss) attributable to the Company	31,975	(14,147)	32,219	(75,621)
Net income (loss) attributable to common shareholders	$ 31,757	(14,433)	$ 32,001	(75,907)
Basic earnings (loss) per common share	$ 0.76	$ (0.40)	$ 0.76	$ (2.15)
Basic weighted average shares outstanding	42,037,112	35,835,788	41,975,448	35,231,252
Diluted earnings (loss) per common share	$ 0.72	$ (0.40)	$ 0.73	$ (2.15)
Diluted weighted average shares outstanding	44,249,698	35,835,788	44,085,326	35,231,252

See accompanying notes to consolidated financial statements.

4

Table of Contents

JONES LANG LASALLE INCORPORATED

Consolidated Statement of Changes in Equity

For the Six Months Ended June 30, 2010

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

	Common Stock		Company Shareholders Equity					
			Additional		Shares	Other		
			Paid-In	Retained	Held in	Comprehensive	Noncontrolling	Total
	Shares	Amount	Capital	Earnings	Trust	Loss	Interest	Equity
Balances at December 31, 2009	41,843,947	$ 418	854,227	531,456	(5,196)	(1,976)	3,685	$ 1,382,614
Net income				32,219			246	32,465
Shares issued under stock compensation programs	303,094	4	864					868
Shares repurchased for payment of taxes on stock awards	(87,442)	(1)	(5,905)					(5,906)
Tax adjustments due to vestings and exercises			710					710
Amortization of stock compensation			20,472					20,472
Dividends declared				(4,487)				(4,487)
Shares held in trust					193			193
Decrease in amounts due to noncontrolling interest							(1,061)	(1,061)
Foreign currency translation adjustments						(49,556)		(49,556)
Balance at June 30, 2010	42,059,599	$ 421	870,368	559,188	(5,003)	(51,532)	2,870	$ 1,376,312

See accompanying notes to consolidated financial statements.

Table of Contents

JONES LANG LASALLE INCORPORATED

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2010 and 2009

($ in thousands) (unaudited)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 32,465	(75,419)
Reconciliation of net income (loss) to net cash used in operating activities:		
Depreciation and amortization	35,246	45,887
Equity in losses from real estate ventures	8,924	51,271
Operating distributions from real estate ventures	150	
Gain on investments		(1,381)
Provision for loss on receivables and other assets	8,142	12,307
Amortization of deferred compensation	19,715	24,793
Accretion of interest on deferred business acquisition obligations	12,221	11,719
Amortization of debt issuance costs	3,088	1,980
Change in:		
Receivables	8,360	136,214
Prepaid expenses and other assets	(14,520)	(10,229)
Deferred tax assets, net	7,517	(34,160)
Excess tax benefit from share-based payment arrangements	(710)	
Accounts payable, accrued liabilities and accrued compensation	(200,961)	(248,843)
Net cash used in operating activities	(80,363)	(85,861)
Cash flows from investing activities:		
Net capital additions property and equipment	(13,658)	(21,031)
Business acquisitions	(33,471)	(9,885)
Capital contributions and advances to real estate ventures	(13,945)	(19,498)
Distributions, repayments of advances and sale of investments	2,715	769
Net cash used in investing activities	(58,359)	(49,645)
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	763,839	660,107
Repayments of borrowings under credit facilities	(630,501)	(731,506)
Debt issuance costs	(70)	(11,183)
Issuance of common stock, net		217,831
Shares repurchased for payment of employee taxes on stock awards	(5,906)	(626)
Excess tax adjustment from share-based payment arrangements	710	
Common stock issued under option and stock purchase programs	868	3,128
Payment of dividends	(4,487)	(3,814)
Net cash provided by financing activities	124,453	133,937
Net decrease in cash and cash equivalents	(14,269)	(1,569)
Cash and cash equivalents, January 1	69,263	45,893
Cash and cash equivalents, June 30	$ 54,994	44,324
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 8,970	13,770

Income taxes, net of refunds	9,666	18,786
Non-cash financing activities:		
Deferred business acquisition obligations	$	5,419

See accompanying notes to consolidated financial statements.

6

Table of Contents

JONES LANG LASALLE INCORPORATED

Notes to Consolidated Financial Statements (Unaudited)

Readers of this quarterly report should refer to the audited financial statements of Jones Lang LaSalle Incorporated (Jones Lang LaSalle, which may also be referred to as the Company or as the firm, we, us or our) for the year ended December 31, 2009, which are included in our 2009 Annual Report, filed with the United States Securities and Exchange Commission (SEC) and also available on our website (www.joneslanglasalle.com), since we have omitted from this report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to the Summary of Critical Accounting Policies and Estimates section within Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in this quarterly report and in our 2009 Annual Report for further discussion of our accounting policies and estimates.

(1) Interim Information

Our consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 are unaudited; however, in the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements for these interim periods have been included.

Historically, our revenue and profits have tended to be higher in the third and fourth quarters of each year than in the first two quarters. This is the result of a general focus in the real estate industry on completing or documenting transactions by calendar-year-end while we recognize certain expenses evenly throughout the year. Our Investment Management segment generally earns investment-generated performance fees on clients real estate investment returns and co-investment equity gains when assets are sold, the timing of which is geared toward the benefit of our clients. Within our Investor and Occupier Services segments, revenue for capital markets activities relates to the size and timing of our clients transactions and can fluctuate significantly from period to period. Non-variable operating expenses, which we treat as expenses when they are incurred during the year, are relatively constant on a quarterly basis. As such, the results for the periods ended June 30, 2010 and 2009 are not indicative of what our results will be for the full fiscal year.

(2) New Accounting Standards

Consolidation of Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 167, Amendments to FASB Interpretation (FIN) No. 46(R). SFAS 167 amends FIN 46(R) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. The analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both (i) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of, or the right to receive benefits from, the variable interest entity that could potentially be significant to the entity. SFAS 167 also amends guidance in FIN 46(R) (i) for determining when an entity is a variable interest entity, including an additional reconsideration event for such determinations, (ii) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, (iii) to eliminate the quantitative approach previously required for determining the primary beneficiary, and (iv) to enhance disclosures regarding an enterprise s involvement in a variable interest entity. SFAS 167 became effective for the Company on January 1, 2010. The adoption of SFAS 167 did not have a material impact on our consolidated financial statements. See Note 6 for additional information on our accounting for investments in variable interest entities.

Fair Value

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements (ASU No. 2010-06). ASU 2010-06 requires new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for such transfers. This provision became effective for the Company on January 1, 2010. ASU 2010-06 also requires disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements. The Level 3 disclosure requirements are effective for the Company January 1, 2011. See Note 9 for additional information on fair value measurements.

(3) Revenue Recognition

We earn revenue from the following principal sources:

- **Transaction commissions;**
- **Advisory and management fees;**
- **Incentive fees;**
- **Project and development management fees; and**
- **Construction management fees.**

We recognize **transaction commissions** related to tenant representation, agency leasing and capital markets services as income when we provide the related service unless future contingencies exist. If future contingencies exist, we defer recognition of this revenue until the respective contingencies have been satisfied.

We recognize **advisory and management fees** related to property management services, valuation services, corporate property services, consulting services and investment management as income in the period in which we perform the related services.

We recognize **incentive fees** when the performance of the underlying funds investments reach contractual benchmarks and other contractual formulas.

We recognize **project and development management and construction management fees** by applying the percentage of completion method of accounting. We use (i) the efforts expended method to determine the extent of progress towards completion for project and development management fees and (ii) costs incurred to total estimated costs for construction management fees.

Construction management fees, which are gross construction services revenues net of subcontract costs, were $1.5 million and $2.6 million for the three months ended June 30, 2010 and 2009, respectively, and $3.6 million and $5.6 million for the six months ended June 30, 2010 and 2009, respectively. Gross construction services revenues totaled $36.6 million and $42.2 million for the three months ended June 30, 2010 and 2009, respectively, and $73.9 million and $84.8 million for the six months ended June 30, 2010 and 2009, respectively. Subcontract costs totaled $35.1 million and $39.6 million for the three months ended June 30, 2010 and 2009, respectively, and $70.3 million and $79.2 million for the six months ended June 30, 2010 and 2009, respectively.

We include costs in excess of billings on uncompleted construction contracts of $12.4 million and $5.9 million in Trade receivables, and billings in excess of costs on uncompleted construction contracts of $2.5 million and $3.9 million in Deferred income, respectively, in our June 30, 2010 and December 31, 2009 consolidated balance sheets.

Gross and Net Accounting. In certain of our businesses, primarily those involving management services, our clients reimburse us for expenses incurred on their behalf. We base the treatment of reimbursable expenses for financial reporting purposes upon the fee structure of the underlying contracts.

Accordingly, we report a contract that provides a fixed fee billing, fully inclusive of all personnel and other recoverable expenses incurred but not separately scheduled, on a **gross basis**. When accounting on a gross basis, our reported revenues include the full billing to our client and our reported expenses include all costs associated with the client.

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

- The property owner or client, with ultimate approval rights relating to the employment and compensation of on-site personnel, and bearing all of the economic costs of such personnel, is determined to be the primary obligor in the arrangement;

- Reimbursement to Jones Lang LaSalle is generally completed simultaneously with payment of payroll or soon thereafter;

- Because the property owner is contractually obligated to fund all operating costs of the property from existing cash flow or direct funding from its building operating account, Jones Lang LaSalle bears little or no credit risk; and

- Jones Lang LaSalle generally earns no margin in the reimbursement aspect of the arrangement, obtaining reimbursement only for actual costs incurred.

Most of our service contracts use the latter structure and we account for them on a net basis. We have always presented reimbursable contract costs on a net basis in accordance with U.S. GAAP. These costs aggregated approximately $313.6 million and $316.5 million for the three months ended June 30, 2010 and 2009, respectively, and approximately $625.5 million and $580.8 million for the six months ended June 30, 2010 and 2009, respectively. This treatment has no impact on operating income, net income or cash flows.

Table of Contents

(4) Business Segments

We manage and report our operations as four business segments:

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

- **(i) Americas,**
- **(ii) Europe, Middle East and Africa (EMEA),**
- **(iii) Asia Pacific; and**

- **(iv) Investment Management, which offers investment management services on a global basis.**

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, property management, facility management, project and development services, and advisory, consulting and valuation services. We consider property management to be services provided to non-occupying property investors and facilities management to be services provided to owner-occupiers.

The Investment Management segment provides investment management services to institutional investors and high-net-worth individuals.

Operating income represents total revenue less direct and indirect allocable expenses. We allocate all expenses, other than interest and income taxes, as nearly all expenses incurred benefit one or more of the segments. Allocated expenses primarily consist of corporate global overhead. We allocate corporate global overhead expenses to the business segments based on the budgeted operating expenses of each segment.

For segment reporting we show equity in (losses) earnings from real estate ventures within our revenue line since it is an integral part of our Investment Management segment. Our measure of segment reporting results also excludes restructuring charges. The Chief Operating Decision Maker of Jones Lang LaSalle measures the segment results with Equity in (losses) earnings from real estate ventures, and without restructuring charges. We define the Chief Operating Decision Maker collectively as our Global Executive Committee, which is comprised of our Global Chief Executive Officer, Global Chief Operating and Financial Officer and the Chief Executive Officers of each of our four reporting segments.

Summarized unaudited financial information by business segment for the three and six months ended June 30, 2010 and 2009 is as follows ($ in thousands):

9

Table of Contents

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Investor and Occupier Services				
Americas				
Segment revenue:				
Revenue	$ 295,485	248,354	523,683	449,389
Equity income (losses)	36	233	241	(1,211)
	295,521	248,587	523,924	448,178
Operating expenses:				
Compensation, operating and administrative expenses	254,217	217,416	464,666	405,575
Depreciation and amortization	8,861	12,523	17,718	28,439
Operating income	$ 32,443	18,648	41,540	14,164
EMEA				
Segment revenue:				
Revenue	$ 170,762	143,451	322,167	264,590
Equity losses	(15)	(580)	(33)	(959)
	170,747	142,871	322,134	263,631
Operating expenses:				
Compensation, operating and administrative expenses	160,554	138,374	316,814	275,316
Depreciation and amortization	4,308	5,234	9,027	10,376
Operating income (loss)	$ 5,885	(737)	(3,707)	(22,061)
Asia Pacific				
Segment revenue:				
Revenue	$ 154,704	120,671	290,349	226,473
Equity losses		(1,401)		(2,372)
	154,704	119,270	290,349	224,101
Operating expenses:				
Compensation, operating and administrative expenses	140,494	113,535	267,592	219,053
Depreciation and amortization	3,094	3,072	6,333	5,993
Operating income (loss)	$ 11,116	2,663	16,424	(945)
Investment Management				
Segment revenue:				
Revenue	$ 59,368	63,662	124,782	129,898
Equity losses	(2,817)	(17,500)	(9,132)	(46,729)
	56,551	46,162	115,650	83,169
Operating expenses:				
Compensation, operating and administrative expenses	46,184	52,704	96,211	102,263
Depreciation and amortization	1,270	538	2,169	1,079
Operating income (loss)	$ 9,097	(7,080)	17,270	(20,173)
Segment Reconciling Items:				
Total segment revenue	$ 677,523	556,890	1,252,057	1,019,079
Reclassification of equity losses	(2,796)	(19,248)	(8,924)	(51,271)
Total revenue	$ 680,319	576,138	1,260,981	1,070,350
Total segment operating expenses before restructuring charges	618,982	543,396	1,180,530	1,048,094
Restructuring charges	3,996	15,386	5,116	32,428