JONES LANG LASALLE INC
Form 10-Q
November 06, 2017

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 September 30, 2017
Or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-13145
Jones Lang LaSalle Incorporated
(Exact name of registrant as specified in its charter)

Maryland	36-4150422
(State or other jurisdiction of incorporation or organization)	(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
Former name, former address and former fiscal year, if changed since last report: Not Applicable

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

Indicate by check mark whether the registrant 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). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of shares outstanding of the registrant's common stock (par value $0.01) as of the close of business on November 2, 2017 was 45,366,426.

Table of Contents

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data) (unaudited)	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$277.9	258.5
Trade receivables, net of allowances of $51.8 and $37.1	1,779.1	1,870.6
Notes and other receivables	346.4	326.7
Warehouse receivables	337.8	600.8
Prepaid expenses	96.1	81.7
Other	149.0	161.4
Total current assets	2,986.3	3,299.7
Property and equipment, net of accumulated depreciation of $544.0 and $488.0	516.6	501.0
Goodwill	2,701.3	2,579.3
Identified intangibles, net of accumulated amortization of $159.0 and $180.6	307.4	295.0
Investments in real estate ventures, including $234.2 and $212.7 at fair value	372.5	355.4
Long-term receivables	168.6	176.4
Deferred tax assets, net	190.9	180.9
Deferred compensation plan	218.5	173.0
Other	92.2	68.7
Total assets	$7,554.3	7,629.4
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$793.6	846.2
Accrued compensation	930.8	1,064.7
Short-term borrowings	64.2	89.5
Deferred income	179.3	129.8
Deferred business acquisition obligations	33.5	28.6
Short-term earn-out liabilities	33.2	23.8
Warehouse facilities	331.9	580.1
Other	215.9	203.6
Total current liabilities	2,582.4	2,966.3
Credit facility, net of debt issuance costs of $16.4 and $19.6	433.6	905.4
Long-term debt, net of debt issuance costs of $4.5 and $2.3	684.2	272.7
Deferred tax liabilities, net	24.4	21.5
Deferred compensation	232.3	201.1
Deferred business acquisition obligations	54.3	73.8
Long-term earn-out liabilities	190.3	205.8
Other	177.5	161.3
Total liabilities	4,379.0	4,807.9
Redeemable noncontrolling interest	3.9	6.8
Company shareholders' equity:		
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 45,361,956 and 45,213,832 shares issued and outstanding	0.5	0.5
Additional paid-in capital	1,032.0	1,013.3

Retained earnings	2,491.4	2,333.0
Shares held in trust	(5.8)	(6.0)
Accumulated other comprehensive loss	(374.4)	(551.1)
Total Company shareholders’ equity	3,143.7	2,789.7
Noncontrolling interest	27.7	25.0
Total equity	3,171.4	2,814.7
Total liabilities and equity	$ 7,554.3	7,629.4

See accompanying notes to Condensed Consolidated Financial Statements.

3

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except share and per share data) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$1,947.0	1,705.2	$5,396.9	4,645.6
Operating expenses:				
Compensation and benefits	1,132.3	1,012.0	3,146.6	2,750.4
Operating, administrative and other	651.4	568.3	1,870.0	1,546.5
Depreciation and amortization	41.8	35.9	122.3	98.5
Restructuring and acquisition charges	3.4	18.0	13.3	35.9
Total operating expenses	1,828.9	1,634.2	5,152.2	4,431.3
Operating income	118.1	71.0	244.7	214.3
Interest expense, net of interest income	15.0	12.4	42.6	32.2
Equity earnings from real estate ventures	12.6	5.5	32.7	27.7
Other income	—	—	—	13.3
Income before income taxes and noncontrolling interest	115.7	64.1	234.8	223.1
Provision for income taxes	28.2	15.9	57.3	55.3
Net income	87.5	48.2	177.5	167.8
Net income attributable to noncontrolling interest	0.9	0.2	1.7	15.1
Net income attributable to the Company	86.6	48.0	175.8	152.7
Dividends on unvested common stock, net of tax benefit	—	—	0.2	0.2
Net income attributable to common shareholders	$86.6	48.0	$175.6	152.5
Basic earnings per common share	$1.91	1.06	$3.88	3.38
Basic weighted average shares outstanding (in 000's)	45,349	45,188	45,299	45,135
Diluted earnings per common share	$1.89	1.05	$3.84	3.35
Diluted weighted average shares outstanding (in 000s)	45,814	45,612	45,729	45,515
Dividends declared per share	$—	—	$0.35	0.31
Net income attributable to the Company	$86.6	48.0	$175.8	152.7
Change in pension liabilities, net of tax	1.2	—	2.0	—
Foreign currency translation adjustments	45.6	(15.0)	174.7	(50.9)
Comprehensive income attributable to the Company	$133.4	33.0	$352.5	101.8

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

	Company Shareholders' Equity							
(in millions, except share and per share data) (unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Shares Held in Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
December 31, 2016	45,213,832	$ 0.5	1,013.3	2,333.0	(6.0)	(551.1)	25.0	$2,814.7
Net income [1]	—	—	—	175.8	—	—	1.8	177.6
Shares issued under stock-based compensation programs	203,073	—	3.1	—	—	—	—	3.1
Shares repurchased for payment of taxes on stock-based compensation	(54,949)	—	(6.4)	—	—	—	—	(6.4)
Amortization of stock-based compensation	—	—	19.6	—	—	—	—	19.6
Cumulative effect from adoption of new accounting for stock-based compensation	—	—	1.3	(1.3)	—	—	—	—
Dividends paid, $0.35 per share	—	—	—	(16.1)	—	—	—	(16.1)
Shares held in trust	—	—	—	—	0.2	—	—	0.2
Change in pension liabilities, net of tax	—	—	—	—	—	2.0	—	2.0
Foreign currency translation adjustments	—	—	—	—	—	174.7	—	174.7
Increase in amounts attributable to noncontrolling interest	—	—	—	—	—	—	0.9	0.9
Acquisition of redeemable noncontrolling interest	—	—	1.1	—	—	—	—	1.1
September 30, 2017	45,361,956	$ 0.5	1,032.0	2,491.4	(5.8)	(374.4)	27.7	$3,171.4

(1) Excludes net loss attributable to redeemable noncontrolling interest of $0.1 million for nine months ended September 30, 2017.
See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(in millions) (unaudited)	2017	2016
Cash flows provided by (used in) operating activities:		
Net income	$177.5	167.8
Adjustments to reconcile net income to net cash used in operating activities:		
Distributions of earnings from real estate ventures	24.2	24.4
Other adjustments, net	122.5	111.3
Changes in working capital, net	(28.5)	(455.4)
Net cash provided by (used in) operating activities	295.7	(151.9)
Cash flows used in investing activities:		
Net capital additions – property and equipment	(98.1)	(139.4)
Acquisition of investment properties (less than wholly-owned)	—	(63.7)
Business acquisitions, net of cash acquired	(18.7)	(418.6)
Capital contributions to real estate ventures	(27.0)	(78.5)
Distributions of capital from real estate ventures	24.9	43.3
Other, net	(0.8)	39.5
Net cash used in investing activities	(119.7)	(617.4)
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of senior notes	395.7	—
Proceeds from borrowings under credit facility	2,478.0	2,530.0
Repayments of borrowings under credit facility	(2,953.0)	(1,680.0)
Payments of deferred business acquisition obligations and earn-outs	(41.2)	(46.6)
Payment of dividends	(16.1)	(14.2)
Noncontrolling interest contributions, net	0.7	7.7
Other, net	(29.5)	(17.6)
Net cash (used in) provided by financing activities	(165.4)	779.3
Effect of currency exchange rate changes on cash and cash equivalents	8.8	1.8
Net change in cash and cash equivalents	19.4	11.8
Cash and cash equivalents, beginning of the period	258.5	216.6
Cash and cash equivalents, end of the period	$277.9	228.4
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$33.6	24.3
Income taxes, net of refunds	112.6	111.8
Non-cash investing activities:		
Business acquisitions, including contingent consideration	$11.5	90.5
Capital leases	2.2	7.9
Non-cash financing activities:		
Deferred business acquisition obligations	$1.8	53.1

See accompanying notes to Condensed Consolidated Financial Statements.

6

Table of Contents

JONES LANG LASALLE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
1. INTERIM INFORMATION

Readers of this quarterly report should refer to the audited financial statements of Jones Lang LaSalle Incorporated ("JLL," which may also be referred to as "the Company" or as "we," "us" or "our") for the year ended December 31, 2016, which are included in our 2016 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission ("SEC") and also available on our website (www.jll.com), since we have omitted from this quarterly 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 7. Management's Discussion and Analysis of Financial Condition and Result of Operations and to Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in our 2016 Annual Report on Form 10-K for further discussion of our significant accounting policies and estimates.

Our Condensed Consolidated Financial Statements as of September 30, 2017 and December 31, 2016, and for the three and nine months ended September 30, 2017 and 2016, are unaudited. In the opinion of management, we have included all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the Condensed Consolidated Financial Statements for these interim periods. We have reclassified certain prior year amounts to conform to the current year presentation.

Historically, our quarterly revenue and profits have tended to increase from quarter to quarter as the year progresses. This is the result of a general focus in the real estate industry on completing transactions by calendar year-end, while certain expenses are recognized evenly throughout the year. Our LaSalle Investment Management ("LaSalle") 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 Real Estate Services ("RES") segments, revenue from capital markets activities is driven by the size and timing of our clients' transactions and can fluctuate significantly from period to period.

A significant portion of our compensation and benefits expense is from incentive compensation plans, which we generally accrue throughout the year based on progress toward annual performance targets. This process can result in significant fluctuations in quarterly compensation and benefits expense from period to period. Non-variable operating expenses, which we recognize when incurred during the year, are relatively constant on a quarterly basis.

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, which is based on forecasted income by country and expected enacted tax rates. Changes in the geographic mix of income can impact our estimated effective tax rate.

As a result of the items mentioned above, the results for the periods ended September 30, 2017 and 2016 are not fully indicative of what our results will be for the full fiscal year.

Our Warehouse receivables are classified as held-for-sale as they represent originated mortgage loans for which we have executed commitments to sell to third-parties. Warehouse receivables have historically been carried at the lower of cost or fair value. Effective January 1, 2017, we elected the fair value option to measure and report new Warehouse receivables at fair value on an instrument-by-instrument basis. Increases or decreases in the fair value of these loans following origination are recognized in Revenue in the Condensed Consolidated Statements of Comprehensive Income. Our Warehouse receivables balance as of September 30, 2017 did not include any loans reported within our December 31, 2016 balance as all warehoused loans were sold during the three months ended March 31, 2017.

Table of Contents

2. NEW ACCOUNTING STANDARDS

Recently adopted accounting guidance

Effective January 1, 2017, we adopted Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which was intended to simplify several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. One primary effect of adoption was our election to account for forfeitures as they occur, rather than estimate forfeitures in our determination of periodic compensation cost; we adopted this portion of the standard on a modified retrospective basis. The second primary effect of adoption was the recognition of excess tax benefits in our provision for income taxes, rather than Additional paid-in capital, which also results in reclassification of cash flows related to excess tax benefits from a financing activity to an operating activity on the statement of cash flows for periods beginning January 1, 2017; we adopted this portion of the standard on a prospective basis with the effect of adoption reflected for the interim periods beginning this year.

As a result of the adoption, we recorded a $1.3 million cumulative-effect decrease to beginning retained earnings to recognize the impact of share-based compensation expense previously estimated to be forfeited; there was no material impact to our provision for income taxes in the nine months ended September 30, 2017.

Recently issued accounting guidance, not yet adopted

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost (Topic 715), which amends the requirements for presentation of service costs and other components of net benefit costs on the Income Statement. This ASU is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The annual goodwill impairment test will require companies to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge when the carrying amount exceeds the fair value of the reporting unit. This ASU is effective for annual and interim goodwill impairment tests beginning after December 15, 2019, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses appropriate presentation and classification of certain cash receipts and cash payments within the statement of cash flows under Accounting Standards Codification ("ASC") Topic 230, Statement of Cash Flows. Specifically, this ASU provides clarification guidance on eight cash flow issues intended to improve comparability across financial statements. This ASU is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), which creates a new framework to evaluate financial instruments, such as trade receivables, for expected credit losses. This new framework replaces the existing incurred loss approach and is expected to result in more timely recognition of credit losses. ASU No. 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is not permitted until years beginning after December 15, 2018. We are evaluating the effect this guidance will have on our financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations and together with ASU No. 2014-09 (collectively the "ASUs"), as discussed below, amends and comprises ASC Topic 606, Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. These ASUs, and other related ASUs, will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles ("U.S. GAAP") when effective. The final standard is effective for annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted for annual and interim periods in fiscal years beginning after December 15, 2016.

Table of Contents

We plan to apply the full retrospective approach to adopt ASC Topic 606. Based upon analyses performed, we anticipate ASC Topic 606 will result in an acceleration of the timing of revenue recognition for certain transaction commissions and advisory services. These items include variable consideration or other aspects, such as contingencies, that preclude revenue recognition contemporaneous with the satisfaction of our performance obligations within the existing revenue recognition framework. We do not expect the acceleration of the timing of revenue recognition to have a material impact to our Consolidated Financial Statements.

In addition, we anticipate implementation of the updated principal versus agent considerations in ASC Topic 606 will result in a significant increase to the proportion of our Property & Facility Management and Project & Development Services contracts accounted for on a gross basis. Under the legacy principal versus agent framework, our evaluations for presentation of a service contract contemplated both performance and payment risk. Contractual provisions with clients and vendors, such as “pay-when-paid”, that substantially mitigate payment risk to us with respect to on-site personnel and other expenses incurred on our clients’ behalf have historically resulted in the majority of our service contracts being accounted for on a net basis. However, within ASC Topic 606, payment risk is not an evaluation factor; instead, control of the service before transfer to the customer is the focal point of principal versus agent assessments.

Within certain Property & Facility Management and Project & Development Services contracts, we have concluded that we control the services provided by a third party on behalf of clients. Therefore upon adoption of ASC Topic 606, for these service contracts, we will present the expenses incurred on behalf of clients along with the corresponding reimbursement revenue on a gross basis. Based upon evaluations which are ongoing, we estimate our application of the full retrospective approach will result in our full-year 2016 Consolidated Statements of Comprehensive Income reflecting approximately $5.5 billion to $6.5 billion of additional Revenue and an equal amount of Operating expenses. The estimated increase is anticipated to be most impacted by service contracts in the U.S. We expect the impact for 2017 to be generally consistent with 2016; however, we have not yet completed these assessments.

We do not anticipate a material impact to our other revenue streams beyond what is discussed above.

We expect the adoption of ASC Topic 606 to result in a material increase to total assets and total liabilities to reflect (i) contract assets and accrued commissions payable recognized upon acceleration of the timing of revenue recognition for certain transaction commissions and advisory services and (ii) nearly balanced receivables and payables relating to Property & Facility Management and Project & Development Services contracts to be reported on a gross basis. Our assessment with respect to the quantitative impact of ASC Topic 606 on our Consolidated Balance Sheets is ongoing.

Finally, we expect the adoption of ASC Topic 606 to have a notable increase to the level of detail provided by our disclosures, including further disaggregation of revenue, quantitative and qualitative information about performance obligations, as well as additional balance sheet disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability by requiring the recognition of lease assets and lease liabilities on the balance sheet as well as requiring the disclosure of key information about leasing arrangements. This ASU is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We anticipate the adoption of this ASU will result in an increase to the Condensed Consolidated Balance Sheet to reflect right-of-use assets and lease liabilities primarily associated with our office leases around the world. However, we have not yet quantified this impact nor the impact associated with non-real estate leases. We continue to evaluate any other effect the guidance will have on our financial statements and related disclosures.

Table of Contents

3. BUSINESS SEGMENTS

We manage and report our operations as four business segments:

The three geographic regions of RES including:

(1) Americas,

(2) Europe, Middle East and Africa ("EMEA"), and

(3) Asia Pacific;

and

(4) LaSalle, which offers investment management services on a global basis.

Each geographic region offers our full range of real estate services, including agency leasing and tenant representation, capital markets and hotels, property management, facilities management, project and development management, energy management and sustainability, construction management, and advisory, consulting and valuation services. We define "property management" to mean services we provide to non-occupying property investors and "facilities management" to represent services we provide to owner-occupiers. LaSalle provides investment management services to institutional investors and high-net-worth individuals.

Operating income represents total revenue less direct and allocated indirect expenses. We allocate all indirect expenses to our segments, 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, which we allocate to the business segments based on the budgeted operating expenses of each segment.

For segment reporting, (a) gross contract costs and (b) net non-cash mortgage servicing rights ("MSR") and mortgage banking derivative activity are both excluded from revenue in determining "fee revenue". Gross contract costs are excluded from operating expenses in determining "fee-based operating expenses." Excluding these costs from revenue and expenses results in a net presentation which we believe more accurately reflects how we manage our expense base, operating margins, and performance. In addition, our measure of segment results excludes Restructuring and acquisition charges.

We have reclassified certain prior year amounts to conform to the current presentation. Specifically during the first quarter of 2017, we revised our methodology for allocating overhead expenses and certain costs associated with our facilities management platform in EMEA to our reporting segments. Prior year amounts have been reclassified to conform to the current presentation. Reclassifications have not been material and have not affected reported net income or consolidated results.

The Chief Operating Decision Maker of JLL measures and evaluates the segment results excluding (a) gross contract costs, (b) net non-cash MSR and mortgage banking derivative activity, and (c) Restructuring and acquisition charges. As of September 30, 2017, we define the Chief Operating Decision Maker collectively as our Global Executive Board, which is comprised of the following:

- Global Chief Executive Officer
- Global Chief Financial Officer
- Chief Executive Officers of each of our four business segments
- Global Chief Executive Officer of Corporate Solutions
- Global Head of Capital Markets
- Global Chief Human Resources Officer

Table of Contents

Summarized financial information by business segment is as follows.

(in millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Real Estate Services				
Americas				
Revenue	$796.7	771.1	$2,311.3	2,047.5
Gross contract costs	(40.4)	(52.6)	(131.4)	(144.8)
Net non-cash MSR and mortgage banking derivative activity	(7.1)	(2.9)	(11.1)	(2.3)
Total fee revenue	749.2	715.6	2,168.8	1,900.4
Operating expenses:				
Compensation, operating and administrative expenses	699.1	686.0	2,054.0	1,842.2
Depreciation and amortization	24.2	21.3	71.4	58.4
Total segment operating expenses	723.3	707.3	2,125.4	1,900.6
Gross contract costs	(40.4)	(52.6)	(131.4)	(144.8)
Total fee-based segment operating expenses	682.9	654.7	1,994.0	1,755.8
Segment operating income	$73.4	63.8	$185.9	146.9
Equity earnings	0.1	0.1	0.5	0.8
Total segment income	$73.5	63.9	$186.4	147.7
EMEA				
Revenue	$635.2	522.7	$1,727.1	1,373.4
Gross contract costs	(171.6)	(146.2)	(464.7)	(407.3)
Total fee revenue	463.6	376.5	1,262.4	966.1
Operating expenses:				
Compensation, operating and administrative expenses	621.4	513.9	1,712.3	1,348.9
Depreciation and amortization	11.6	9.6	33.0	25.6
Total segment operating expenses	633.0	523.5	1,745.3	1,374.5
Gross contract costs	(171.6)	(146.2)	(464.7)	(407.3)
Total fee-based segment operating expenses	461.4	377.3	1,280.6	967.2
Segment operating income (loss)	$2.2	(0.8)	$(18.2)	(1.1)
Equity losses	—	—	—	(0.1)
Total segment income (loss)	$2.2	(0.8)	$(18.2)	(1.2)

Table of Contents

Continued: Summarized financial information by business segment is as follows.

(in millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Real Estate Services				
Asia Pacific				
Revenue	$413.0	331.1	$1,095.4	916.9
Gross contract costs	(103.3)	(59.2)	(272.5)	(183.4)
Total fee revenue	309.7	271.9	822.9	733.5
Operating expenses:				
Compensation, operating and administrative expenses	383.6	309.3	1,033.7	869.0
Depreciation and amortization	5.2	4.2	15.7	12.4
Total segment operating expenses	388.8	313.5	1,049.4	881.4
Gross contract costs	(103.3)	(59.2)	(272.5)	(183.4)
Total fee-based segment operating expenses	285.5	254.3	776.9	698.0
Segment operating income	$24.2	17.6	$46.0	35.5
Equity earnings	0.9	0.5	2.3	0.5
Total segment income	$25.1	18.1	$48.3	36.0
LaSalle				
Revenue	$102.1	80.3	$263.1	307.8
Operating expenses:				
Compensation, operating and administrative expenses	79.6	71.1	216.6	236.8
Depreciation and amortization	0.8	0.8	2.2	2.1
Total segment operating expenses	80.4	71.9	218.8	238.9
Segment operating income	$21.7	8.4	$44.3	68.9
Equity earnings	11.6	4.9	29.9	26.5
Total segment income	$33.3	13.3	$74.2	95.4
Segment Reconciling Items				
Total fee revenue	$1,624.6	1,444.3	$4,517.2	3,907.8
Gross contract costs	315.3	258.0	868.6	735.5
Net non-cash MSR and mortgage banking derivative activity	7.1	2.9	11.1	2.3
Total revenue	$1,947.0	1,705.2	$5,396.9	4,645.6
Total segment operating expenses before restructuring and acquisition charges	1,825.5	1,616.2	5,138.9	4,395.4
Operating income before restructuring and acquisition charges	$121.5	89.0	$258.0	250.2
Restructuring and acquisition charges	3.4	18.0	13.3	35.9
Operating income	$118.1	71.0	$244.7	214.3

Table of Contents

4. BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

2017 Business Combinations Activity

During the nine months ended September 30, 2017, we completed five new strategic acquisitions, as presented in the table below. These acquisitions reflect continued efforts to grow scale in key regional markets across various business lines.

Acquired Company	Quarter of Acquisition	Country	Primary Service Line
Maloney Field Services	Q1	Australia	Capital Markets & Hotels
Meridian Immobilier SA	Q1	Switzerland	Leasing
Urbis Partners, LLC	Q1	United States	Leasing
Zabel Property AG	Q1	Germany	Capital Markets & Hotels
Integra Realty Resources - Orange County	Q3	United States	Advisory, Consulting and Other

Aggregate terms of these acquisitions included: (1) cash paid at closing of $22.4 million (exclusive of $5.6 million in cash acquired), (2) guaranteed deferred consideration of $1.8 million subject only to the passage of time, and (3) contingent earn-out consideration of $11.5 million, which we will pay upon satisfaction of certain performance conditions and which we have initially recorded at their respective acquisition date fair value.

A preliminary allocation of purchase consideration resulted in goodwill of $24.3 million, identifiable intangibles of $9.7 million, and other net assets (acquired assets less assumed liabilities) of $1.7 million. As of September 30, 2017, we have not completed our analysis to assign fair values to all of the identifiable intangible and tangible assets acquired and, therefore, we may further refine the purchase price allocations for our 2017 acquisitions during their open measurement periods.

During the nine months ended September 30, 2017, we paid $41.2 million for deferred business acquisition and earn-out obligations for acquisitions completed in prior years. We also paid $2.4 million to acquire a portion of the redeemable noncontrolling interest related to our 2014 acquisition of Tenzing AB, a Swedish real estate services provider.

2016 Business Combination Activity

During the nine months ended September 30, 2017, we made adjustments to our preliminary allocation of the purchase consideration for certain acquisitions completed in 2016. These adjustments resulted in a $5.3 million increase to goodwill, which included a $1.9 million net working capital adjustment payment for a 2016 acquisition, and a $0.4 million reduction to identifiable intangibles. As of September 30, 2017, we have not completed our analysis to assign fair values to all the identifiable intangible and tangible assets acquired and, therefore, we may further refine the purchase price allocations for our 2016 acquisitions with open measurement periods.

Earn-Out Payments

As of September 30, 2017, we had the potential to make a maximum of $436.9 million (undiscounted) in earn-out payments on 56 completed acquisitions, subject to the achievement of certain performance criteria. We accrued $223.5 million, representing the fair value of these obligations, as of September 30, 2017, which is included in Short-term earn-out liabilities and Long-term earn-out liabilities within our Condensed Consolidated Balance Sheet. Assuming the achievement of the applicable performance criteria, we anticipate making these earn-out payments over the next six years.

As of December 31, 2016, we had the potential to make a maximum of $435.0 million (undiscounted) in earn-out payments on 52 completed acquisitions, subject to the achievement of certain performance criteria. We accrued $229.6 million, representing the fair value of these obligations as of December 31, 2016. Refer to Note 7, Fair Value Measurements, and Note 10, Restructuring and Acquisition Charges, for additional discussion of our earn-out liabilities.

Goodwill and Other Intangible Assets

Goodwill and unamortized intangibles of $3,008.7 million as of September 30, 2017 consisted of: (1) goodwill of $2,701.3 million, (2) identifiable intangibles of $298.6 million amortized over their remaining finite useful lives, and (3) $8.8 million of identifiable intangibles with indefinite useful lives that are not amortized. Significant portions of our goodwill and unamortized intangibles are denominated in currencies other than the U.S. dollar, which means a portion of the movements in the reported book value of these balances is attributable to movements in foreign currency exchange rates.

Table of Contents

The following tables detail, by reporting segment, movements in goodwill.

	Real Estate Services				
(in millions)	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Balance as of December 31, 2016	$ 1,406.1	851.7	306.1	15.4	$ 2,579.3
Additions, net of adjustments	5.2	17.9	6.5	—	29.6
Impact of exchange rate movements	0.9	80.5	10.0	1.0	92.4
Balance as of September 30, 2017	$ 1,412.2	950.1	322.6	16.4	$ 2,701.3

	Real Estate Services				
(in millions)	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Balance as of December 31, 2015	$ 1,161.1	696.2	266.6	17.6	$ 2,141.5
Additions, net of adjustments	174.2	239.8	36.6	—	450.6
Impact of exchange rate movements	0.8	(50.8)	6.2	(1.5)	(45.3)
Balance as of September 30, 2016	$ 1,336.1	885.2	309.4	16.1	$ 2,546.8

The following tables detail, by reporting segment, movements in the gross carrying amount and accumulated amortization of our identifiable intangibles.

	MSRs	Other Intangibles				
(in millions)	Americas	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Gross Carrying Amount						
Balance as of December 31, 2016	$ 193.1	167.1	91.1	24.2	0.1	$ 475.6
Additions, net of adjustments (1)	50.7	0.4	3.1	5.8	—	60.0
Adjustment for fully amortized intangibles	(12.5)	(50.0)	(7.7)	(8.0)	(0.1)	(78.3)
Impact of exchange rate movements	—	0.2	7.6	1.3	—	9.1
Balance as of September 30, 2017	$ 231.3	117.7	94.1	23.3	—	$ 466.4
Accumulated Amortization						
Balance as of December 31, 2016	$ (32.3)	(98.7)	(38.0)	(11.5)	(0.1)	$ (180.6)
Amortization, net (2)	(29.8)	(10.3)	(11.2)	(1.9)	—	(53.2)
Adjustment for fully amortized intangibles	12.5	50.0	7.7	8.0	0.1	78.3
Impact of exchange rate movements	—	0.3	(3.6)	(0.2)	—	(3.5)
Balance as of September 30, 2017	$ (49.6)	(58.7)	(45.1)	(5.6)	—	$ (159.0)
Net book value as of September 30, 2017	$ 181.7	59.0	49.0	17.7	—	$ 307.4

(1) Included in this amount for MSRs was $7.7 million relating to prepayments/write-offs due to prepayments of sold warehouse receivables for which we retained the servicing rights.
(2) Amortization of MSRs is included in Revenue within the Condensed Consolidated Statements of Comprehensive Income.

Table of Contents

	MSRs	Other Intangibles				
(in millions)	Americas	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Gross Carrying Amount						
Balance as of December 31, 2015	$ 171.6	125.5	48.5	14.3	6.3	$ 366.2
Additions, net of adjustments	17.0	38.6	51.8	5.7	—	113.1
Impairments [1]	—	—	—	—	(6.5)	(6.5)
Impact of exchange rate movements	—	(0.3)	(4.7)	0.5	0.3	(4.2)
Balance as of September 30, 2016	$ 188.6	163.8	95.6	20.5	0.1	$ 468.6
Accumulated Amortization						
Balance as of December 31, 2015	$ (8.6)	(88.4)	(32.6)	(9.3)	(0.1)	$ (139.0)
Amortization, net [2]	(17.8)	(7.7)	(7.0)	(1.3)	—	(33.8)
Impact of exchange rate movements	—	0.4	3.5	(0.2)	—	3.7
Balance as of September 30, 2016	$ (26.4)	(95.7)	(36.1)	(10.8)	(0.1)	$ (169.1)
Net book value as of September 30, 2016	$ 162.2	68.1	59.5	9.7	—	$ 299.5

(1) In the third quarter of 2016, we fully impaired an indefinite-lived intangible asset related to a 2011 acquisition of an Australian property fund management business.

(2) Amortization of MSRs is included in Revenue within the Condensed Consolidated Statements of Comprehensive Income.

The remaining estimated future amortization expense of MSRs and other identifiable intangible assets, by year, as of September 30, 2017, is presented in the following table.

(in millions)	MSRs	Other Intangibles	Total
2017 (3 months)	$ 7.7	11.9	$ 19.6
2018	30.0	24.2	54.2
2019	26.9	22.2	49.1
2020	24.2	19.5	43.7
2021	20.4	13.3	33.7
2022	17.4	13.5	30.9
Thereafter	55.1	12.3	67.4
Total	$ 181.7	116.9	$ 298.6

5. INVESTMENTS IN REAL ESTATE VENTURES

As of September 30, 2017 and December 31, 2016, we had Investments in real estate ventures of $372.5 million and $355.4 million, respectively.

Approximately 70% of our investments are in 46 separate property or commingled funds, where we co-invest alongside our clients and for which we also have an advisory agreement. Our investment ownership percentages in these funds generally range from less than 1% to 10%. The remaining 30% of our Investments in real estate ventures, as of September 30, 2017, were attributable to investment vehicles that use our capital and outside capital primarily provided by institutional investors to invest in certain real estate ventures that own and operate real estate. Of our investments attributable to investment vehicles, the majority was invested in LaSalle Investment Company II ("LIC II"), in which we held an effective ownership interest of 48.78%.

We have maximum potential unfunded commitments to direct investments or investment vehicles of $222.2 million as of September 30, 2017, of which $65.4 million relates to our commitment to LIC II.

Table of Contents

We evaluate our less-than-wholly-owned investments to determine whether the underlying entities are classified as variable interest entities ("VIEs"); we assess each identified VIE to determine whether we are the primary beneficiary. We have determined that we are the primary beneficiary of certain VIEs and accordingly, we have consolidated such entities. The assets of the consolidated VIEs are available only for the settlement of the obligations of the respective entities and the mortgage loans of the consolidated VIEs are non-recourse to JLL.

Summarized financial information for our consolidated VIEs is presented in the following tables.

(in millions)	September 30, 2017	December 31, 2016
Property and equipment, net	$ 13.5	13.8
Investment in real estate ventures	9.1	10.3
Other current assets [1]	40.0	40.7
Total assets	$ 62.6	64.8
Other current liabilities [1]	$ 31.2	35.0
Mortgage indebtedness (included in Other liabilities)	9.3	9.7
Total liabilities	40.5	44.7