

The financial data and comments contained in the Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated and Combined Financial Statements, and the Quarterly Results of Operations, located elsewhere within this report, have been included in the Annual Report on Form 10-K for LaSalle Partners Incorporated filed with the Securities and

SELECTED FINANCIAL DATA FOR LASALLE PARTNERS INCORPORATED (UNAUDITED)

(S in thousands, except share data)

STATEMENT OF OPERATIONS DATA:

Total revenue ⁽³⁾

Total operating expenses before merger related non-recurring charges ⁽³⁾

Operating income before merger related non-recurring charges

Merger related non-recurring charges ⁽¹⁾

Operating income

Interest expense

Earnings before provision for income taxes

Net provision for income taxes

Net earnings

ADJUSTMENTS ⁽¹⁾:

Merger related non-recurring charges

Tax benefit associated with merger related non-recurring charges

Adjusted net earnings ⁽¹⁾

Basic earnings per common share

Weighted average shares outstanding

Diluted earnings per common share

Diluted weighted average shares outstanding

OTHER DATA:

Adjusted EBITDA ⁽⁶⁾

CASH FLOWS PROVIDED BY (USED IN):

Operating activities

Investing activities

Financing activities

Investments under management ⁽⁷⁾

Total square feet-facility management ⁽⁸⁾

Total square feet under management ⁽⁹⁾

BALANCE SHEET DATA:

Cash and cash equivalents

Total assets

Long-term debt

Total liabilities

Total partners' capital (deficit)/ stockholders' equity

- (1) Adjusted Actual represents actual historical earnings of LaSalle including the operating results for COMPASS since its acquisition, adjusted for merger related non-recurring charges which consist of integration and transition costs related to the COMPASS acquisition and non-capitalizable merger related expenses associated with the pending merger with Jones Lang Wootton. Management believes that Adjusted Actual is useful to investors as a measure of operating performance, cash generation and ability to service debt. However, Adjusted Actual should not be considered as an alternative either to: (i) net earnings (determined in accordance with GAAP); (ii) operating cash flow (determined in accordance with GAAP); or (iii) liquidity.
- (2) Pro forma results give effect to (i) the acquisition of Galbreath on April 22, 1997, as adjusted for the Tenant Representation and Investment Banking units which were not acquired, as if such acquisition had occurred on January 1, 1996; (ii) the provision for income taxes as though LaSalle and Galbreath were taxable entities as of January 1, 1996 at an effective tax rate of 38.5%; and (iii) estimated incremental general and administrative costs associated with operations as a public company and the repayment of LaSalle's long-term notes payable out of the proceeds of the initial public offering as if the Offering had occurred on January 1, 1996.
- (3) Historical revenue and operating expenses have been reclassified to reflect personnel cost reimbursements received on property management or specific client assignments on a net rather than gross basis. There was no effect on operating income or net earnings as historically reported.
- (4) Basic and diluted earnings per common share for 1997 are calculated based on net earnings for the period from conversion to corporate form, July 22, 1997, through December 31, 1997.

Exchange Commission on March 4, 1999, a date which preceded the Special Meeting of the LaSalle shareholders held on March 10, 1999 to approve the pending merger with JLLW. As such, historical results of operations reflect those of LaSalle Partners Incorporated and refer to the merger with JLLW as pending.

	1998	1997	1996	1995	1994	1998 Adjusted Actual ⁽¹⁾	1997 Pro Forma ⁽²⁾	1996 Pro Forma ⁽²⁾
\$	304,464	224,773	159,453	138,618	116,698	304,464	232,984	189,398
	256,601	189,659	132,552	118,502	98,683	256,601	198,333	159,221
	47,863	35,114	26,901	20,116	18,015	47,863	34,651	30,177
	10,021	—	—	—	—	10,021	—	—
	37,842	35,114	26,901	20,116	18,015	37,842	34,651	30,177
	4,153	3,995	5,730	3,806	5,159	4,153	1,000	1,075
	33,689	31,119	21,171	16,310	12,856	33,689	33,651	29,102
	13,224	5,279	1,207	505	554	13,224	12,956	11,204
\$	20,465	25,840	19,964	15,805	12,302	20,465	20,695	17,898
						10,021	—	—
						(3,933)	—	—
						26,533	20,695	17,898
\$	1.26	1.50 ⁽⁴⁾					1.28 ⁽⁵⁾	1.10 ⁽⁵⁾
	16,215,478	16,200,000				16,215,478	16,200,000	16,200,000
\$	1.25	1.49 ⁽⁴⁾					1.27 ⁽⁵⁾	1.10 ⁽⁵⁾
	16,387,721	16,329,613				16,387,721	16,329,555	16,329,555
\$	61,318	44,207	32,317	24,356	20,866	61,318	44,407	37,624
\$	22,969	40,577	13,964	13,553	24,628	29,057	33,027	13,646
	(239,096)	(14,126)	(32,478)	(5,706)	(4,885)	(239,096)	(14,367)	(31,852)
	202,377	(3,128)	17,189	(12,365)	(12,028)	202,377	(10,996)	37,605
\$	14,200,000	14,700,000	15,200,000	11,500,000	10,700,000	14,200,000	14,700,000	15,200,000
	188,000	98,900	66,700	66,700	50,600	188,000	98,900	97,500
	400,500	202,700	131,600	125,700	102,400	400,500	202,700	200,000
\$	16,941	30,660	7,207	8,322	12,840			
	490,921	219,887	156,614	115,001	107,055			
	202,923	—	55,551	40,805	41,028			
	321,349	72,990	132,367	100,004	93,898			
	169,572	146,897	24,247	14,997	13,157			

(5) Pro forma basic earnings per common share are calculated based on the 16,200,000 shares outstanding upon completion of the initial public offering. Pro forma diluted earnings per common share give further effect to the impact of outstanding dilutive options in accordance with SFAS No. 128.

(6) Adjusted EBITDA represents earnings before interest expense, income taxes, depreciation and amortization and merger related non-recurring charges. Management believes that Adjusted EBITDA is useful to investors as a measure of operating performance, cash generation and ability to service debt. However, Adjusted EBITDA should not be considered as an alternative either to: (i) net earnings (determined in accordance with GAAP); (ii) operating cash flow (determined in accordance with GAAP); or (iii) liquidity.

(7) Investments under management represent the aggregate fair market value or cost basis of assets managed by the LaSalle Investment Management segment as of the end of the periods reflected.

(8) Represents the total square footage of properties for which LaSalle provided facility management services as of the end of the periods reflected.

(9) Represents the total square footage of properties for which LaSalle provided property management and leasing or facility management services as of the end of the periods reflected.

OVERVIEW

LaSalle Partners Incorporated ("LaSalle") is a leading vertically integrated global real estate services firm that provides leasing and management services, financial and corporate services and investment management services to corporations and other real estate owners and investors worldwide. LaSalle has grown by expanding both its client base and its range of services and products in anticipation of client needs. LaSalle completed its initial public offering ("Offering") on July 22, 1997, raising net proceeds of \$82.8 million which were used primarily to repay its long-term debt and related interest of \$63.5 million.

LaSalle has pursued a growth strategy that capitalizes on existing client relationships and emerging industry trends. Historically, the four key components of the growth strategy included expanding client relationships to increase the range of services currently provided in addition to developing new client relationships, broadening its international presence and selectively pursuing strategic acquisitions and co-investment opportunities.

During 1998, LaSalle generated nearly 50% of its fee based revenue from clients utilizing services from multiple business units. Additionally, LaSalle generated approximately 85% of its fee based revenue from clients it had previously served.

Since late 1994, LaSalle has completed the following strategic acquisitions: Alex. Brown Kleinwort Benson Realty Advisors Corporation, a real estate investment advisor, in November 1994; CIN Property Management, a London-based investment advisor, in October 1996; The Galbreath Company, a property and development management company, in April 1997; the project management business of Satulah Group Inc., a project management/facilities conversion company, in January 1998; and COMPASS Management and Leasing and certain of its affiliates, a property management and leasing, facility management and project management company with operations in the United States, United Kingdom, Australia and Brazil, in October 1998.

The acquisition of COMPASS, which was combined with LaSalle's Leasing and Management Services segment, created the largest real estate management services company in the United States, adding approximately 200 million square feet of property and facility management assignments to LaSalle's portfolio. LaSalle paid \$180.0 million in cash for the acquisition with provisions for an earnout payment of up to \$77.5 million over five years. The consideration, in addition to transaction costs of approximately \$3.2 million, were financed with a new \$175.0 million acquisition facility and borrowings on LaSalle's existing revolving credit facility. LaSalle anticipates that transition and integration costs related to the acquisition will total approximately \$10.3 million on an after-tax basis, of which \$5.2 million were incurred as of December 31, 1998, with the remainder anticipated to be incurred during the first half of 1999.

In October 1998, LaSalle and Jones Lang Wootton ("JLW") announced their intent to merge operations. JLW is an employee-owned international real estate services firm with approximately 4,000 employees and operations in 32 countries. The operations, headquartered in London, are managed geographically with four main regions in Europe, Asia, Australasia and the United States. JLW has a culture, long-term strategy and service capability which is compatible with that of LaSalle and includes approximately 280 million square feet under management and approximately \$6.3 billion in assets under management. LaSalle incurred merger related transition and integration costs during 1998 totaling \$.9 million on an after-tax basis. A proxy statement soliciting approval has been distributed to LaSalle's shareholders, and a special meeting has been set for March 10, 1999. If LaSalle shareholder approval is received and the other closing conditions are met, the transaction is expected to close shortly after the meeting.

LaSalle intends to continue to increase its level of co-investment with its investment management clients. This strategy should serve to grow the assets under management, generate returns on investment and create potential opportunities to provide services related to the acquisition, financing, property management, leasing and disposition of such investments. As of December 31, 1998, LaSalle had a total investment of \$53.0 million in 38 separate property or fund co-investments with additional capital commitments of \$6.7 million for future fundings of co-investments.

Included in the investments noted above is an \$18.8 million investment in LaSalle Hotel Properties (“LHO”), a real estate investment trust, which completed its initial public offering in April 1998. LHO was formed to own hotel properties and to continue and expand the hotel investment activities of LaSalle by investing particularly in upscale and luxury full service hotels located primarily in major business and urban, resort and convention markets. LaSalle provides advisory, acquisition and administrative services to LHO for which it receives a base advisory fee calculated as a percentage of net operating income, as well as performance fees based on growth in funds from operations on a per share basis. Such performance fees, if any, will be paid in the form of LHO common stock or units, at LaSalle’s option. LHO was formed with 10 hotels, nine of which LaSalle had a nominal co-investment in and acted as the investment advisor for. In accordance with the individual investment advisory agreements, LaSalle earned and received performance fees totaling \$15.2 million on the disposition of certain of the assets which were shared between LaSalle’s Investment Management and Investment Banking units. LaSalle contributed its ownership interests in the hotels as well as the related performance fees to LHO for an effective ownership interest of approximately 6.4%.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED WITH YEAR ENDED DECEMBER 31, 1997

Revenue

LaSalle’s total revenue, after elimination of intersegment revenue, grew \$76.7 million, or 35.5%, to \$304.5 million in 1998 from \$224.8 million in 1997. Increased revenues were driven in part, by the acquisitions of COMPASS, Satulah and Galbreath, as well as by the completion of the LHO initial public offering. In addition, growth was driven by strong capital flows into the U.S. real estate market, in spite of a market correction which occurred during the latter half of 1998, continued underlying demand for real estate by users across the spectrum of property types, and LaSalle’s ability to cross-market real estate services to its clients.

These increases were partially offset by a decline in property management, leasing and investment management fees from four of LaSalle’s multiple investor funds (“Commingled Funds”) formed by LaSalle in the 1980s. The decline is a result of the disposition of the funds’ assets, in accordance with the strategic plan. These asset dispositions were completed by December 1998. Revenue generated from these funds compared with total revenue was .8% for 1998 and 4.5% for 1997.

Revenue for LaSalle’s Leasing and Management Services segment, which represented 44.4% of LaSalle’s total revenue in 1998, increased \$49.5 million, or 57.2%, to \$136.1 million in 1998 from \$86.6 million in 1997. This increase was primarily due to the acquisitions of COMPASS, Satulah and Galbreath and, to a lesser extent, as a result of higher volumes of leasing activity, the addition of nine new facility services clients, new strategic alliance relationships formed by the Project Management business and a higher volume of projects being managed by the Development Services business. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously.

LaSalle's Financial and Corporate Services segment revenue, which represented 26.6% of LaSalle's total revenue in 1998, increased \$20.1 million, or 32.3%, to \$82.4 million in 1998 from \$62.3 million in 1997. This record revenue resulted from an increased transaction volume experienced by each of the segment's three business units. In addition, the Tenant Representation business generated approximately 82.2% of its revenues from strategic alliances with large corporations and professional firms and signed on seven new alliances during 1998. Total revenue generated from strategic alliances was up \$6.5 million over 1997 levels. The growth in revenue experienced by the Investment Banking business includes incentive fees of \$5.6 million related to the initial public offering of LHO. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously, in addition to the volatility in the capital markets during the latter half of 1998.

LaSalle Investment Management segment revenue, which represented 29.0% of LaSalle's total revenue in 1998, increased \$10.7 million, or 13.8%, to \$88.3 million in 1998 from \$77.6 million in 1997. The net gain in revenue was primarily attributable to performance fees generated on the disposition of certain assets under management in which LaSalle had a co-investment, including certain hotel properties in connection with the formation of LHO, and, to a lesser extent, to increased acquisition and advisory fees generated on international fund activity and a higher volume of activity performed by the securities business. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously, in addition to the transition of approximately \$1.0 billion in assets under management related to the CalPERS office portfolio to the client's new investment advisor during the third quarter of 1998 and the reduction in publicly traded REIT values during the latter half of 1998.

Operating Expense

LaSalle's operating expenses, after elimination of intersegment expenses, increased \$77.0 million, or 40.6%, to \$266.6 million in 1998 from \$189.7 million in 1997. Operating expenses include \$10.0 million in merger related non-recurring charges as a result of the COMPASS acquisition and the proposed merger with JLW. LaSalle's operating expenses, exclusive of these charges, totaled \$256.6 million and represented an increase of \$66.9 million, or 35.3%, over the prior year. As a percentage of total revenue, operating expenses, exclusive of the merger related charges, remained constant at approximately 84.3%.

Operating expenses for LaSalle's Leasing and Management Services segment increased \$48.1 million, or 61.1%, to \$126.7 million in 1998 from \$78.6 million in 1997. This increase was primarily a result of the COMPASS, Satulah and Galbreath acquisitions, including personnel and facility costs and the amortization of intangibles resulting from the acquisitions, higher compensation and benefit costs associated with increased staffing to support new business initiatives and incremental corporate infrastructure costs as a result of higher staffing levels and technology enhancements.

Operating expenses for the Financial and Corporate Services segment increased \$16.1 million, or 34.7%, to \$62.6 million in 1998 from \$46.4 million in 1997. The increase was primarily attributable to increased incentive compensation earned by the Investment Banking and Tenant Representation businesses, consistent with the increased levels of operating income generated, in addition to increased personnel and other operating costs associated with staffing levels necessary to support new business initiatives and the increased business activity.

Operating expenses for the LaSalle Investment Management segment increased \$3.5 million, or 5.2%, to \$69.7 million in 1998 from \$66.2 million in 1997. The increase was primarily a result of increased incentive compensation, consistent with the increased level of operating income generated, and, to a lesser extent, to costs associated with new business initiatives. These increases were partially offset as a result of a one-time reserve of \$1.5 million established in late 1997 related to the pending liquidation of a mid-1980 investment vehicle.

Operating Income

As a result of the factors noted above, LaSalle's operating income, including merger related non-recurring charges of \$10.0 million, increased \$2.7 million, or 7.7%, to \$37.8 million in 1998 from \$35.1 million in 1997. Exclusive of the merger related charges, LaSalle's operating income increased \$12.7 million, or 36.3%. As a percentage of total revenue, operating income, exclusive of merger related charges, remained constant at 15.6%.

Interest Expense

Interest expense increased \$.2 million, or 4.0%, to \$4.2 million in 1998 from \$4.0 million in 1997, principally as a result of the COMPASS acquisition and the resulting borrowings on the new acquisition facility and existing revolving credit facility, offset by the repayment of LaSalle's long-term debt from the net proceeds of the Offering and the subsequent repayment of outstanding debt under its working capital facility in July 1997.

Provision for Income Taxes

The provision for income taxes increased \$7.9 million to \$13.2 million in 1998 from \$5.3 million in 1997 as a result of LaSalle's conversion from partnership to corporate form in July 1997 and the resulting provision for income taxes at an effective tax rate of 39.3% in 1998 and 38.5% in 1997. This increase includes the effect of the recognition of a \$6.8 million tax benefit in July 1997, in accordance with SFAS No. 109, as a result of LaSalle recording a deferred tax asset arising from temporary differences between the book and tax basis of its consolidated assets and liabilities at the date of conversion to corporate form. In 1998, the provision for taxes includes a tax benefit of approximately \$3.9 million related to merger related charges.

Net Earnings

Net earnings, including merger related charges of \$6.1 million on an after-tax basis, decreased \$5.4 million, or 20.8% to \$20.5 million in 1998 from \$25.8 million in 1997. Exclusive of merger related charges, net earnings increased slightly to \$26.6 million. Net earnings, excluding merger related charges, represented 8.7% of total revenue compared to 11.5% in 1997. This decrease primarily reflects the increased tax provision in 1998 as a result of being a taxable entity for the entire year, and to a lesser extent, the impact of amortization of intangibles related to recent acquisitions.

YEAR ENDED DECEMBER 31, 1997 COMPARED WITH YEAR ENDED DECEMBER 31, 1996

Revenue

LaSalle's total revenue, after elimination of intersegment revenue, grew \$65.3 million, or 41.0%, to \$224.8 million in 1997 from \$159.5 million in 1996. Increased revenues were driven in part, by the acquisition of CIN and Galbreath, and also by three additional factors: the strong U.S. economy, increased inflow of capital to the real estate market, and LaSalle's ability to cross-market real estate services to its clients. The strong economy has led to job growth, which has fueled increased demand for real estate of all types. This increased demand has produced rising rental rates and higher investment returns for owners, thereby attracting investment capital to the market. The inflow of capital has led to a high level of transaction activity, including disposition, acquisition, and financing of real estate. LaSalle's ability to cross-market all of these services to its clients has augmented the increased revenue generated by higher activity levels.

These increases have been partially offset by a decline in property management, leasing and investment management fees from four of LaSalle's Commingled Funds discussed previously. Revenue generated from these funds compared with total revenue was 4.5% for 1997 and 10.8% for 1996.

Revenue for LaSalle's Leasing and Management Services segment, which represented 38.4% of LaSalle's total revenue in 1997, increased \$27.0 million, or 45.3%, to \$86.6 million in 1997 from \$59.6 million in 1996. This increase was primarily due to the acquisition of Galbreath with approximately 67.5 million square feet under management and, to a lesser extent, as a result of an increase in management and leasing fees generated from a net additional 5.6 million square feet under management for LaSalle, exclusive of the Galbreath portfolio. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously.

LaSalle's Financial and Corporate Services segment revenue, which represented 27.1% of LaSalle's total revenue in 1997, increased \$18.4 million, or 41.9%, to \$62.3 million in 1997 from \$43.9 million in 1996. This record revenue resulted primarily from a \$12.7 million increase in revenue from LaSalle's Investment Banking business. A number of significant tenant representation transactions and a series of transactions generated from the unit's strategic alliances, including two of LaSalle's facility management clients, accounted for the majority of the \$4.7 million increase in tenant representation revenue. Approximately 81% of domestic tenant representation revenue in 1997 was generated from strategic alliances with large corporations or professional service firms.

LaSalle Investment Management segment revenue, which represented 34.5% of LaSalle's total revenue in 1997, increased \$20.4 million, or 35.6%, to \$77.6 million in 1997 from \$57.2 million in 1996. The net gain in revenue was primarily attributable to growth in LaSalle's European advisory business resulting from the CIN acquisition and to increased performance fees generated on the disposition of certain assets under management. These increases were partially offset by a decline in revenue from four of LaSalle's Commingled Funds discussed previously.

Operating Expense

LaSalle's operating expenses, after elimination of intersegment expenses, increased \$57.1 million, or 43.1%, to \$189.7 million in 1997 from \$132.6 million in 1996. As a percentage of total revenue, operating expenses increased to 84.4% in 1997 from 83.1% in 1996, primarily reflecting the impact of goodwill amortization associated with the recent acquisitions. All three of LaSalle's segments experienced higher levels of compensation and benefits associated with increased staffing and higher incentive compensation associated with LaSalle's increased operating income.

Operating expenses for LaSalle's Leasing and Management Services segment increased \$30.2 million, or 62.3%, to \$78.6 million in 1997 from \$48.4 million in 1996. This increase was primarily a result of increased compensation and benefit costs, the effects of the Galbreath acquisition — including personnel costs, amortization of intangibles resulting from the acquisition, and transition and integration costs — and increased corporate infrastructure costs as a result of higher staffing levels and technology enhancements.

Operating expenses for the Financial and Corporate Services segment increased \$13.0 million, or 38.8%, to \$46.4 million in 1997 from \$33.5 million in 1996. The increase was principally a result of increased incentive compensation earned by the Investment Banking and Tenant Representation businesses, consistent with the increased level of operating income generated. In addition, the segment experienced higher employment levels to meet the increased demand for services, and, to a lesser extent, increased corporate infrastructure costs related to higher staffing levels and technology enhancements.

Operating expenses for the LaSalle Investment Management segment increased \$14.4 million, or 27.8%, to \$66.2 million in 1997 from \$51.8 million in 1996. The increase was primarily a result of increased incentive compensation, consistent with the increased level of operating income generated, the effects of the CIN acquisition — including personnel costs and amortization of intangibles resulting from the acquisition — and, to lesser extents, to increased corporate infrastructure costs as a result of higher staffing levels and technology enhancements, and a one-time reserve of \$1.5 million established in late 1997 related to the pending liquidation of a mid-1980 investment vehicle. These increases were partially offset by a decrease in staffing levels from 1996 through unreplaced attrition and redeployment of resources to other segments, in addition to reduced employee relocation costs.

Operating Income

As a result of the factors noted above, LaSalle's operating income increased \$8.2 million, or 30.5%, to \$35.1 million in 1997 from \$26.9 million in 1996. As a percentage of total revenue, operating income decreased to 15.6% in 1997 from 16.9% in 1996, primarily as a result of increased amortization of intangible assets associated with the recent acquisitions.

Interest Expense

Interest expense decreased \$1.7 million, or 30.3%, to \$4.0 million in 1997 from \$5.7 million in 1996, principally as a result of the repayment of LaSalle's long-term debt from the net proceeds of the Offering and the subsequent repayment of outstanding debt under its working capital facility in July 1997.

Provision for Income Taxes

The provision for income taxes increased \$4.1 million to \$5.3 million in 1997 from \$1.2 million in 1996 as a result of LaSalle's conversion from partnership to corporate form in July 1997 and the resulting provision for income taxes at an effective tax rate of 38.5%. This increase was offset by the recognition of a \$6.8 million tax benefit, in accordance with SFAS No. 109, as a result of LaSalle recording a deferred tax asset arising from temporary differences between the book and tax basis of its consolidated assets and liabilities at the date of conversion to corporate form.

Net Earnings

Net earnings increased \$5.9 million, or 29.4%, to \$25.8 million in 1997 from \$20.0 million in 1996. Net earnings in 1997 represented 11.5% of total revenue, compared with 12.5% in the previous year as a result of increased tax expense related to the conversion of LaSalle to corporate form and the increased amortization expense related to intangible assets associated with the recent acquisitions.

Liquidity and Capital Resources

LaSalle meets its operating cash requirements primarily from operating activities. No one client accounted for more than 10% of total revenue in 1998, 1997 and 1996. During 1998, cash flows provided by operations totaled \$23.0 million, a decrease of \$17.6 million from 1997. This decrease is primarily attributable to the acquisition of COMPASS and the related increase in year-end trade receivable balances as compared to the prior year period, offset by an increase in accrued compensation in 1998. In 1997, cash flows provided by operating activities increased \$26.6 million over 1996 which was primarily attributable to strong second and third quarter earnings in 1997 with cash being collected in that year as compared to the strong fourth quarter generation of earnings experienced in prior years.

LaSalle continues to pursue co-investment opportunities with its investment management clients, for which the holding period typically ranges from three to seven years. Such co-investments are represented by non-controlling general partner and limited partner interests. In addition to its share of investment returns, LaSalle typically earns investment management fees, and in some cases, property management and leasing fees on these investments. The equity earnings from these co-investments have had a relatively small impact on LaSalle's current earnings and cash flow. However, LaSalle's increased participation as a principal in real estate investments could increase fluctuations in LaSalle's net earnings and cash flow as a result of the timing and magnitude of the gains or losses and potential incentive participation fees, if any, to be recognized on the disposition of the assets. In certain of these investments, LaSalle will not have complete discretion to control the timing of the disposition of such investments.

Net cash used in investing activities was \$239.1 million in 1998 compared with \$14.1 million for 1997 and \$32.5 million for 1996. The increase in funds used was primarily related to the acquisitions of COMPASS, for \$180.0 million in cash, and Satulah, for \$5.5 million in cash, in addition to a higher level of co-investment during 1998, including an \$18.8 million investment in LHO (net additional co-investment of \$15.2 million). Finally, LaSalle experienced increased net capital expenditures of \$9.3 million, primarily as a result of the continued implementation of a new property accounting and information system by its Leasing and Management Services segment and a new corporate accounting system, in addition to the on-going replacement of personal computers. The decrease in cash used in investing activities in 1997 compared to 1996 is principally a result of the acquisition of CIN in October 1996 for cash of \$15.7 million, and, to a lesser extent, expenditures on furniture and fixtures at LaSalle's new corporate headquarters in 1996. The decreases in cash used in investing activities were partially offset by an increase in funds used for co-investment of \$2.9 million.

Historically, LaSalle has financed its operations, acquisitions and co-investments with internally generated funds, ownership equity and borrowings under revolving credit facilities. In addition to LaSalle's existing five year unsecured revolving credit facility of \$150 million, in September 1998, LaSalle obtained a \$175 million credit facility (the "Acquisition Facility") which is to be used exclusively to finance the COMPASS acquisition. The new facility, which is placed with a syndicate of seven banks, has an initial term of one year with two six month extensions. The revolving credit facility is available for working capital, co-investment, and acquisitions. The facilities are guaranteed by certain of LaSalle's subsidiaries. LaSalle must maintain a certain level of consolidated net worth and ratio of funded debt to EBITDA, and must meet a minimum fixed charge coverage ratio. Additionally, LaSalle is restricted from, among other things, incurring certain levels of indebtedness to lenders outside of the facilities and disposing of a significant portion of its assets, and is subject to lender approval on certain levels of co-investment. The facilities bear variable rates of

interest based on market rates. The Acquisition Facility was fully drawn on December 31, 1998 and LaSalle had outstanding borrowings of \$27.9 million on its revolving credit facility. LaSalle's effective interest rate on its revolving credit facility was 6.0%, 6.7% and 6.9% for the years ended December 31, 1998, 1997 and 1996, respectively. LaSalle's effective interest rate on its Acquisition Facility was 6.1% during 1998.

Net cash provided by financing activities was \$202.4 million for 1998 compared with net cash used in financing activities of \$3.1 million in 1997. The change in financing cash flow was primarily a result of increased borrowing in 1998 to fund the acquisition of COMPASS and infrastructure investments. In 1997, LaSalle received net proceeds from the Offering of \$82.8 million, of which \$63.5 million was used to repay LaSalle's long-term notes payable and \$14.5 million was used to repay short-term indebtedness. LaSalle believes, based on current operating plans that cash generated from operations and available borrowings will be sufficient to meet its capital and liquidity requirements for the foreseeable future.

Disposition

On December 31, 1996, LaSalle completed the sale of its Construction Management business, which specialized in the interior build-out of office and retail space for tenants in the Chicago and Los Angeles markets, to a former member of LaSalle's management. The business was sold in exchange for a note of \$9.1 million of which \$8.5 million was outstanding at December 31, 1998. The note, which is secured by the current and future assets of the business, is due December 31, 2006. For financial reporting purposes, LaSalle has not treated the transaction as a divestiture. Principal and interest to be received under the note will be treated as a reserve, if necessary, for any anticipated financial exposure under the terms of the asset purchase agreement, with the remainder recognized as income when principal and interest payments are received. Income recognized during 1998 and 1997 totaled \$1.2 million and \$1.1 million, respectively, compared with \$1.3 million of revenue, reflected net of related expenses, in 1996.

Seasonality

Historically, LaSalle's revenue, operating income and net earnings in the first three calendar quarters are substantially lower than in the fourth quarter. This seasonality is due to a calendar year-end focus on the completion of transactions, which is consistent with the real estate industry generally. In addition, an increasing percentage of LaSalle's management contracts contain clauses providing for performance bonuses to be received if LaSalle's Leasing and Management Services segment achieves certain performance targets. Such incentive payments are generally earned in the fourth quarter. In contrast, the LaSalle Investment Management segment earns performance fees on client's returns on their real estate investments. Such performance fees are generally earned when the asset is disposed of, the timing of which LaSalle does not have complete discretion over. LaSalle's non-variable operating expenses, which are treated as expenses when incurred during the year, are relatively constant on a quarterly basis. Therefore, LaSalle typically sustains a loss in the first quarter of each calendar year, reports a small profit or loss in the second and third quarters and records a substantial majority of LaSalle's earnings in the fourth calendar quarter, barring the recognition of investment generated performance fees. Results in 1998 and 1997 were stronger in the second and third quarters compared with previous years as a result of performance fees recognized by the LaSalle Investment Management segment and the Investment Banking business as well as a higher level of transactions completed by the Tenant Representation and Investment Banking businesses as compared to prior years.

Inflation

LaSalle's operations are directly affected by various national and local economic conditions, including interest rates, the availability of credit to finance real estate transactions and the impact of tax laws. To date, LaSalle does not believe that general inflation has had a material impact on its operations, as revenue, commissions, and other variable costs related to revenue are primarily impacted by real estate supply and demand rather than general inflation.

OTHER MATTERS

Accounting Matters

In an attempt to align its operating results with those presented by similar companies within the industry, certain amounts have been reclassified in LaSalle's 1997 and 1996 revenue and operating expenses to reflect direct personnel cost reimbursements received on property or specific client assignments on a net, rather than a gross, basis. There was no effect on operating income or net earnings as historically reported.

Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("FASB 133") becomes effective for all fiscal quarters for fiscal years beginning after June 15, 1999 and is not expected to have a material impact on LaSalle's financial statements.

Year 2000 Issues

The "Year 2000 Issue" is the result of computer programs and systems having been designed and developed to use two digits, rather than four, to define the applicable year. As a result, these computer programs and systems may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, pay invoices or engage in similar normal business activities. LaSalle has defined five key phases in addressing the Year 2000 Issue: awareness, assessment, renovation, validation and implementation.

Under the guidance of a Year 2000 program team, whose strategy is supported by senior management, LaSalle has in place an awareness phase and will continue this phase through December 31, 1999 to maintain a heightened sense of awareness to the Year 2000 Issue. LaSalle conducts its business primarily with commercial software purchased from third-party vendors and has significantly upgraded its information systems capabilities over the last two years and is in the process of finalizing the roll-out of new property and client accounting systems. In conducting the assessment phase, LaSalle is reviewing the year 2000 compliance of these systems in addition to creating an inventory of all other applications, systems software and hardware including the related impact of the Year 2000 Issue. Completion of the assessment phase is anticipated to be in early 1999.

Renovation and validation efforts have commenced throughout the year 2000 program. As a result of the significant recent upgrades of the critical business systems, the renovation process of converting, replacing or eliminating selected platforms, applications, databases and utilities, as well as the validation process of testing and verifying, is on schedule for anticipated completion by mid-year 1999. The continuing implementation phase, which involves returning the tested systems to operational status and the development of contingency plans for critical business systems, is also anticipated to be completed by mid-year 1999.

Management expects that the cost of additional modifications to LaSalle's software to meet Year 2000 requirements will not be material. The total anticipated costs related to the phases previously discussed is currently projected to be approximately \$2.8 million, including approximately \$1.4 million of operating expenses associated with testing and other matters and \$1.4 million of capital expenditures, primarily representing system upgrades which provide operational benefits above and beyond Year 2000 compliance. LaSalle has incurred \$.5 million in operating expenses to date. Factors that could impact LaSalle's ability to make the necessary modifications or replacements include, but are not limited to, the availability and cost of trained personnel and the ability of such personnel to locate and correct all relevant computer codes. If such modifications are not completed on a timely basis or are more costly to implement than anticipated, LaSalle's business, financial condition or results of operations could be materially adversely affected.

The ability of third parties with whom LaSalle transacts business or companies that LaSalle may acquire to adequately address their Year 2000 issues is outside LaSalle's control. At this time, LaSalle is in the process of reviewing the Year 2000 compliance of its major suppliers and customers. There can be no assurance that the failure to adequately address Year 2000 issues will not have a material adverse effect on LaSalle's business, financial condition and results of operations.

Properties for which LaSalle provides management services rely on a variety of third party suppliers to provide critical operating services. These suppliers may utilize systems and embedded technologies to control the operation of building systems such as utilities, lighting, security, elevators, heating, ventilating and air conditioning systems. LaSalle is in the process of obtaining assurances from suppliers as to their Year 2000 compliance and preparing contingency plans, including the identification of alternative suppliers. LaSalle does not control these third party suppliers, and for some suppliers, such as utility companies, there may be no feasible alternative suppliers available. The failure to these suppliers' systems could have a material adverse effect on the operations of the affected property, and widespread failures could have a material adverse effect on LaSalle. Plans for a complete millennium period staffing and communication strategy are well under way to proactively address any concerns.

Although LaSalle is not aware of any threatened claims related to the Year 2000, LaSalle may become subject to litigation arising from such claims and, depending on the outcome, such litigation could have a material adverse effect on LaSalle. It is not clear whether LaSalle's insurance coverage would be adequate to offset these and other business risks related to the Year 2000.

Pending Merger

On October 22, 1998, LaSalle and JLW announced that they reached a definitive agreement to merge their operations. JLW, which is headquartered in London, provides a wide range of real estate advisory, transactional and asset management services to local, national and international clients in both the private and public sectors. JLW is an employee-owned company and has more than 4,000 employees located in 32 countries throughout Europe, Asia, North America and Australia. The transaction, which is principally structured as a share exchange, has been approved by LaSalle's Board of Directors and the Board of Directors of the JLW companies and the partnerships. Under the terms of the agreement, LaSalle will issue up to 14.3 million shares of common stock and approximately \$6.2 million in cash (collectively, the "Consideration"), subject to a closing net worth adjustment.

As a general matter, the accounting treatment for the Consideration will be dependent on whether the recipient of the Consideration is a direct or indirect owner of JLW prior to the merger. The accounting treatment will be further dependent on vesting and restrictions associated with the shares to be issued. Approximately 7.6 million shares, or 53% of the shares to be issued, and \$5.8 million in cash will be treated as purchase consideration under APB Opinion No. 16, "Business Combinations". The remaining 6.7 million shares, or 47%, and \$.4 million in cash will be treated as compensation expense in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees".

Of the shares subject to accounting under APB Opinion No. 25, 5.1 million shares will be treated as a fixed compensation award and 1.6 million shares will be treated as a variable compensation award. For the fixed award, the value of the shares issued will be based on the stock price on the date of issuance and will not be subject to change. For the variable award, the value of the shares will also initially be based on the stock price on the date of issuance; however, the value will be adjusted on a quarterly basis to reflect changes in the stock price until such time as the contingencies related to those shares are removed. All compensation expense is anticipated to be recognized by December 31, 2000.

Based on the average closing stock price of \$24.66 per share for the five day period that includes the two trading days immediately preceding, the trading day of, and the two trading days immediately following the date of substantial completion of negotiations regarding the principal financial terms of the merger with JLW (October 9, 1998) discounted at a rate of 20% to account for transferability restrictions applicable to such shares, the value of the shares subject to purchase accounting would be approximately \$186.9 million. This consideration, together with an anticipated cash payment of \$5.8 million and any capitalizable transaction costs, will be allocated to the identifiable assets and liabilities being acquired with any excess purchase price being allocated to goodwill and amortized to expense on a straight-line basis over an estimated useful life of 40 years. Based on a closing stock price of \$31.50, as reported on the New York Stock Exchange, Inc. composite tape on January 29, 1999 (a date just prior to the distribution of the LaSalle Partners Incorporated Proxy Statement in preparation for the March 10, 1999 special meeting), LaSalle expects to incur compensation expense associated with the issuance of shares totaling approximately \$117.3 million and \$93.4 million in the years ended December 31, 1999 and 2000, respectively, assuming that the JLW companies meet certain closing net worth requirements. Included in the total estimated compensation expense of \$210.7 million is expense of \$49.2 million which will be subject to fluctuation based on quarterly changes in the price of LaSalle's common stock. Management anticipates that this compensation expense, \$210.3 million of which represents a non-cash charge, will cause the combined entity to report operating losses for those periods.

The transaction has been approved by the LaSalle Board of Directors, the Boards of Directors of the JLW companies and partnerships, and the JLW shareholders and partners. Completion of the transaction is subject to approval by LaSalle's shareholders, regulatory and tax clearances, and other customary conditions. A proxy statement soliciting approval of the merger has been mailed to shareholders, and a special meeting has been scheduled for March 10, 1999. The transaction is expected to close in early 1999, however, there can be no assurance that the transaction will be completed.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

LaSalle is exposed to interest rate changes primarily as a result of its lines of credit used to maintain liquidity and to fund capital expenditures, acquisitions and expansion of LaSalle's real estate investment portfolio and operations. LaSalle's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, LaSalle borrows primarily at variable rates and enters into derivative financial instruments such as interest rate swap agreements when appropriate. LaSalle does not enter into derivative or interest rate transactions for speculative purposes.

In September 1998, LaSalle obtained a \$175.0 million credit facility to finance the acquisition of COMPASS. This facility is placed with a syndicate of seven banks, has a one year term with two six-month extensions and bears a variable rate of interest based on market rates, which was 6.1% for 1998.

In November 1997, LaSalle replaced its \$70.0 million credit agreement, which consisted of a short-term revolving line of credit and a long-term facility, with a \$150.0 million, five year unsecured revolving credit facility. This facility bears variable rates of interest based on market rates which were 6.0%, 6.7% and 6.9% in 1998, 1997 and 1996, respectively. LaSalle is also required to pay a commitment fee of .15% per annum on the unused portion of the commitment.

As of December 31, 1998, the outstanding borrowings on the acquisition and revolving credit facilities were \$202.9 million. In addition, LaSalle entered into interest rate swap agreements with a notional amount of \$55.0 million providing for an average fixed interest rate of 4.73% through September 21, 1999. Such interest rate swap agreements had an approximate market value of \$188,000. The carrying value of the debt approximates its fair value.

Foreign currency risk

LaSalle's functional currency is the U.S. dollar. LaSalle transacts business in various foreign currencies, primarily in Europe. On a limited basis, LaSalle enters into forward currency exchange contracts to manage currency risks and reduce its exposure resulting from fluctuations in the designated foreign currency associated with existing commitments, assets or liabilities. There were no forward exchange contracts in effect at December 31, 1998. LaSalle does not use foreign currency exchange contracts for trading purposes.

Disclosure of limitations

As the information presented above includes only those exposures that exist as of December 31, 1998 and 1997, it does not consider those exposures or positions which could arise after that date. Moreover, because firm commitments are not presented, the information presented has limited predictive value. As a result, LaSalle's ultimate realized gain or loss with respect to interest rate and foreign currency fluctuations will depend on the exposures that arise during the period, LaSalle's hedging strategies at the time and interest and foreign currency rates.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this filing and elsewhere (such as in reports, other filings with the Securities and Exchange Commission, press releases, presentations and communications by LaSalle or its management and written and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, achievements, plans and objectives of LaSalle to be materially different from any future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements. Such factors are discussed in (i) LaSalle's Registration Statement (No. 333-25741) under the caption "Risk Factors" and elsewhere, (ii) LaSalle's Annual Report on Form 10-K, for the year ended December 31, 1997 in Item 1. "Business," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (iii) LaSalle's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (iv) LaSalle's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (v) LaSalle's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (vi) LaSalle's Current Report on Form 8-K, dated August 31, 1998, (vii) LaSalle's Current Report on Form 8-K, dated October 1, 1998, (viii) LaSalle's Current Report on Form 8-K, dated October 22, 1998 (filed October 22, 1998), (ix) LaSalle's Current Report on Form 8-K, dated October 22, 1998 (filed December 9, 1998), under the captions "The Transactions," "The Purchase Agreements," "JLW Management's Discussion and Analysis of Financial Condition and Results of Operations of the JLW Companies" and elsewhere, (x) LaSalle's Proxy Statement dated February 4, 1999 under the captions "Risk Factors," "The Transactions," "The Purchase Agreements," "JLW Management's Discussion and Analysis of Financial Condition and Results of Operations of the JLW Companies" and elsewhere, (xi) LaSalle's Current Report on Form 8-K, dated February 22, 1999 (filed February 24, 1999), and (xii) other reports filed by LaSalle with the United States Securities and Exchange Commission. LaSalle expressly disclaims any obligation or undertaking to update or revise any forward-looking statements to reflect any changes in events or circumstances or in LaSalle's expectations or results. Statements regarding parties other than LaSalle are based upon representations of such other parties.

THE STOCKHOLDERS AND BOARD OF DIRECTORS OF LASALLE PARTNERS INCORPORATED:

We have audited the accompanying consolidated balance sheets of LaSalle Partners Incorporated and subsidiaries and their predecessors (the "Company") as of December 31, 1998 and 1997, and the related consolidated and combined statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated and combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
February 15, 1999

LASALLE PARTNERS INCORPORATED CONSOLIDATED BALANCE SHEETS

<i>(\$ in thousands, except share data)</i>	<i>1998</i>	<i>1997</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,941	30,660
Trade receivables, net of allowances of \$3,978 and \$2,679 in 1998 and 1997, respectively	116,965	80,565
Notes receivable and advances to real estate ventures	17,042	6,995
Other receivables	3,385	2,400
Prepaid expenses	2,185	2,055
Deferred tax benefit	9,926	5,104
Total current assets	166,444	127,779
Property and equipment, at cost, less accumulated depreciation of \$35,859 and \$28,993 in 1998 and 1997, respectively	28,773	16,098
Intangibles resulting from business acquisitions, net of accumulated amortization of \$11,961 and \$5,698 in 1998 and 1997, respectively	229,437	50,366
Investments in real estate ventures	52,976	18,080
Long-term receivables, net	10,950	6,607
Other assets, net	2,341	957
	\$ 490,921	219,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 51,101	25,781
Accrued compensation	58,398	40,163
Other liabilities	8,324	6,100
Total current liabilities	117,823	72,044
Long-term liabilities:		
Credit facilities	202,923	—
Other	603	946
Commitments and contingencies		
Total liabilities	321,349	72,990
Stockholders' equity:		
Common stock, \$.01 par value per share, 100,000,000 shares authorized; 16,264,176 shares issued and outstanding	163	162
Additional paid-in capital	123,543	121,778
Retained earnings	44,792	24,327
Accumulated other comprehensive income	1,074	630
Total stockholders' equity	169,572	146,897
	\$ 490,921	219,887

See accompanying notes to consolidated and combined financial statements.

LASALLE PARTNERS INCORPORATED CONSOLIDATED AND COMBINED STATEMENTS OF EARNINGS

<i>(In thousands, except share data)</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
REVENUE:			
Fee based services	\$ 298,296	219,911	155,466
Equity in earnings from unconsolidated ventures	3,911	3,238	3,220
Other income	2,257	1,624	767
Total revenue	304,464	224,773	159,453
OPERATING EXPENSES:			
Compensation and benefits	172,982	123,281	89,252
Operating, administrative and other	70,164	57,285	37,884
Depreciation and amortization	13,455	9,093	5,416
Total operating expenses before merger related non-recurring charges	256,601	189,659	132,552
Merger related non-recurring charges	10,021	—	—
Total operating expenses	266,622	189,659	132,552
Operating income	37,842	35,114	26,901
Interest expense	4,153	3,995	5,730
Earnings before provision for income taxes	33,689	31,119	21,171
Net provision for income taxes	13,224	5,279	1,207
Net earnings	\$ 20,465	25,840	19,964
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Foreign currency translation adjustments	444	(469)	1,099
Comprehensive income	\$ 20,909	25,371	21,063
Basic earnings per common share ⁽¹⁾	\$ 1.26	1.50	
Weighted average shares outstanding	16,215,478	16,200,000	
Diluted earnings per common share ⁽¹⁾	\$ 1.25	1.49	
Diluted weighted average shares outstanding	16,387,721	16,329,613	

- (1) Earnings per share for 1997 is calculated based on earnings for the period from conversion to corporate form, July 22, 1997, through December 31, 1997.

See accompanying notes to consolidated and combined financial statements.

LASALLE PARTNERS INCORPORATED CONSOLIDATED AND COMBINED
STATEMENTS OF STOCKHOLDERS' EQUITY

(\$ in thousands, except share data)

Balance at December 31, 1995

Net earnings

Distributions

Other

Balances at December 31, 1996

Net earnings (through July 21, 1997)

Distributions

Acquisition of Galbreath common stock

Effect of the reorganization

Net proceeds from the initial Offering

Other

Balances after the reorganization and initial Offering

Net earnings (July 22, 1997 through December 31, 1997)

Other

Balances at December 31, 1997

Net earnings

Shares issued under stock purchase plan

Other

Balances at December 31, 1998

See accompanying notes to consolidated and combined financial statements.

<i>Common Stock</i>		<i>Additional</i>	<i>Retained</i>	<i>Partners'</i>	<i>Accumulated</i>	
<i>Shares</i>	<i>Amount</i>	<i>Paid-In</i>	<i>Earnings</i>	<i>Capital</i>	<i>Other</i>	<i>Total</i>
		<i>Capital</i>	<i>(Deficit)</i>	<i>Predecessor</i>	<i>Comprehensive</i>	
				<i>Partnerships</i>	<i>Income (Loss)</i>	
—	—	—	—	\$ 14,997	—	14,997
—	—	—	—	19,964	—	19,964
—	—	—	—	(11,813)	—	(11,813)
—	—	—	—	—	1,099	1,099
—	—	—	—	23,148	1,099	24,247
—	—	—	—	1,513	—	1,513
—	—	—	—	(14,835)	—	(14,835)
—	—	—	—	29,292	—	29,292
12,200,000	\$ 122	38,996	—	(39,118)	—	—
4,000,000	40	82,782	—	—	—	82,822
—	—	—	—	—	(565)	(565)
16,200,000	162	121,778	—	—	534	122,474
—	—	—	24,327	—	—	24,327
—	—	—	—	—	96	96
16,200,000	162	121,778	24,327	—	630	146,897
—	—	—	20,465	—	—	20,465
64,176	1	1,765	—	—	—	1,766
—	—	—	—	—	444	444
16,264,176	\$ 163	123,543	44,792	—	1,074	169,572

LASALLE PARTNERS INCORPORATED CONSOLIDATED AND COMBINED
STATEMENTS OF CASH FLOWS

<i>(\$ in thousands)</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net earnings	\$ 20,465	25,840	19,964
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	13,455	9,093	5,416
Equity in earnings and gain on sale from unconsolidated ventures	(3,911)	(3,238)	(3,220)
Provision for loss on receivables and other assets	4,009	2,640	986
Operating distributions from real estate ventures	3,731	4,018	3,571
Amortization of deferred compensation	229	—	—
Tax benefit on conversion to corporate form	—	(6,842)	—
Changes in:			
Receivables	(28,504)	9,631	(17,234)
Prepaid expenses and other assets	(3,760)	1,864	37
Accounts payable, accrued liabilities and accrued compensation	17,255	(2,429)	4,444
Net cash provided by operating activities	22,969	40,577	13,964
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Net capital additions—property and equipment	(15,592)	(6,277)	(10,790)
Acquisition of businesses, net of cash acquired:			
LaSalle Investment Management – CIN	—	—	(15,700)
Leasing and Management Services:			
COMPASS	(173,453)	—	—
Satulah Group	(5,466)	—	—
Cash balances assumed in Galbreath acquisition	—	1,008	—
Investments in real estate ventures:			
Capital contributions and advances to real estate ventures	(51,347)	(16,546)	(9,270)
Distributions, repayments of advances and sale of investments	6,762	7,689	3,282
Net cash used in investing activities	(239,096)	(14,126)	(32,478)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Proceeds from borrowings under acquisition facility	175,000	—	—
Net borrowings (repayments) under working capital facility	27,377	(6,500)	23,000
Net borrowings (repayments) under long-term notes payable	—	(64,615)	6,002
Distributions to partners	—	(14,835)	(11,813)
Net proceeds from the initial Offering	—	82,822	—
Net cash provided by (used in) financing activities	202,377	(3,128)	17,189
Effects of foreign currency translation on cash balances	31	130	210
Net increase (decrease) in cash and cash equivalents	(13,719)	23,453	(1,115)
Cash and cash equivalents, January 1	30,660	7,207	8,322
Cash and cash equivalents, December 31	\$ 16,941	30,660	7,207

Supplemental disclosure of cash flow information (\$ in thousands):

Interest paid was \$3,215, \$4,195 and \$5,191 for the years ended December 31, 1998, 1997 and 1996, respectively. Taxes paid were \$2,881, \$9,910 and \$1,179 for the years ended December 31, 1998, 1997 and 1996, respectively.

On April 22, 1997, LaSalle acquired the common stock of Galbreath in exchange for a 17.5% limited partnership interest valued at \$29,292. Identifiable operating assets and liabilities and investments in real estate ventures totaled \$10,948, \$14,099 and \$1,500, respectively, in addition to cash of \$1,008 as of the acquisition date. LaSalle incurred transaction related expenses of \$641. The increase in these assets and liabilities, excluding cash acquired, and the resulting goodwill of \$30,576 have not been reflected in the above Consolidated and Combined Statements of Cash Flows.

See accompanying notes to consolidated and combined financial statements.

NOTE 1: ORGANIZATION

LaSalle Partners Incorporated [successor to LaSalle Partners Limited Partnership and LaSalle Partners Management Limited Partnership (collectively, the “Predecessor Partnerships”)] was incorporated in Maryland on April 15, 1997, (collectively referred to as “LaSalle”). On July 22, 1997, LaSalle completed an initial public offering (the “Offering”) of 4,000,000 shares of LaSalle Partners Incorporated common stock, \$.01 par value per share (the “Common Stock”). In addition, all of the partnership interests held in the Predecessor Partnerships were contributed to LaSalle, pursuant to agreements among the general and limited partners, in exchange for an aggregate of 12,200,000 shares of common stock. The contribution occurred immediately prior to the closing of the Offering. The 4,000,000 shares were offered at \$23 per share, aggregating \$82,822, net of offering costs, of which \$63,490 was used to retire long-term debt and related interest.

The Predecessor Partnerships were subject to a reorganization as part of the incorporation of LaSalle. Due to the existence of a paired share arrangement between the Predecessor Partnerships and between the former general partners of the Predecessor Partnerships, as well as the existence of identical ownership before and after the incorporation of the Predecessor Partnerships, such transactions were accounted for in a manner similar to the accounting used for a pooling of interests. Thus, LaSalle’s financial statements include the financial positions and results of operations of the Predecessor Partnerships at their historical basis.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Combination

The consolidated and combined financial statements include the accounts of LaSalle and their majority-owned-and-controlled partnerships and subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation and combination.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Cash Held for Others

LaSalle controls certain cash and cash equivalents as agents for its investment and property management clients. Such amounts, which total \$241,673 and \$270,997 at December 31, 1998 and 1997, respectively, are not included in the accompanying Consolidated Balance Sheets.

Statement of Cash Flows

Cash and cash equivalents include demand deposits and investments in U.S. Treasury instruments (generally held available for sale) with maturities of three months or less. The combined carrying value of such investments of \$19,290 approximates their market value at December 31, 1997. There were no cash equivalents outstanding at December 31, 1998.

Impairment of Long-lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or change in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Investments in Real Estate Ventures

LaSalle has limited and general partner interests in various real estate ventures with interests generally ranging from less than 1% to 49.5% which are accounted for using the equity method. In instances where LaSalle exercises temporary control over co-investments, such investments are accounted for under the equity method.

Intangibles Resulting from Business Acquisitions

Intangibles resulting from business acquisitions are amortized on a straight-line basis over the estimated lives (generally eight to 40 years) of the related assets. LaSalle periodically evaluates the recoverability of the carrying amount of intangibles resulting from business acquisitions by assessing whether any impairment indications are present, including substantial recurring operating deficits or significant adverse changes in legal or economic factors that affect the businesses acquired. If such analysis indicates impairment, the intangible asset would be adjusted in the period such changes occurred based on its estimated fair value, which is derived from expected cash flow of the businesses.

Fair Value of Financial Instruments

LaSalle's financial instruments include cash and cash equivalents, receivables, accounts payable, notes payable and interest rate swap agreements. The estimated fair value of cash and cash equivalents, receivables, and payables approximates their carrying amounts due to the short maturity of these instruments. The estimated fair value of LaSalle's credit facilities approximates their carrying value due to their variable interest rate terms. The fair value of interest rate swap agreements is estimated, using third party quotes, as the amount that LaSalle would receive or pay to execute a new agreement with terms identical to those remaining on the current agreement, considering current interest rates.

Foreign Currency Translation

The financial statements of subsidiaries outside the United States, except those subsidiaries located in highly inflationary economies, are generally measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resultant translation adjustments are included as a separate component of stockholders' equity and comprehensive income. Income and expense are translated at average monthly rates of exchange. Gains and losses from foreign currency transactions are included in net earnings. For subsidiaries operating in highly inflationary economies, the associated gains and losses from balance sheet translation adjustments are included in net earnings.

Derivative Instruments

In 1998, LaSalle entered into interest rate swap agreements as a hedge against certain debt liabilities in order to manage interest rate risk. The amount associated with these activities is not considered material. As of December 31, 1998, LaSalle had interest rate swap agreements in effect with a notional amount of \$55,000 with an approximate market value of \$188.

Interest rate swap agreements are contracts that represent an exchange of interest payments and the underlying principal balances of the assets or liabilities are not affected. Net settlement amounts are reported as adjustments to interest income or interest expense. Gains and losses from the termination of interest rate swaps are deferred and amortized over the remaining lives of the designated balance sheet assets or liabilities. If the balance of the liability falls below that of the notional amount of the derivative, the excess portion of the derivative is marked-to-market with a corresponding effect on current earnings.

LaSalle also enters into forward currency exchange contracts on a limited basis to manage currency risks and reduce its exposure resulting from fluctuations in the designated foreign currency associated with existing commitments, assets, or liabilities. The associated gains and losses are deferred and are recognized in income upon settlement of the related transaction. At December 31, 1997, LaSalle had forward exchange contracts in effect with a notional value of \$3,151 with approximately no market value and carrying value. There were no forward exchange contracts in effect at December 31, 1998.

LaSalle does not enter into derivative financial instruments for trading or speculative purposes.

Earnings per Share

Basic earnings per share were based on weighted average shares outstanding of 16,215,478 for 1998 and 16,200,000 for 1997. Diluted earnings per share for 1998 and for the period from conversion to corporate form, July 22, 1997, through December 31, 1997 were based on weighted average shares outstanding of 16,387,721 and 16,329,613, respectively, which reflects an increase of 172,243 shares and 129,613 shares, respectively, representing the dilutive effect of outstanding stock options whose exercise price was less than the average market price of LaSalle's stock for the period. Net earnings of \$24,327 were used in the calculations of 1997 basic and diluted earnings per share, and reflects earnings for the period from conversion to corporate form, July 22, 1997, through December 31, 1997.

Revenue Recognition

Advisory and management fees are recognized in the period in which the services are performed. Transaction commissions are recorded as income at the time the related services are provided unless significant future contingencies exist. Development services fees are generally recognized as billed, which approximates the percentage of completion method of accounting. Incentive fees are recorded in accordance with specific terms of each compensation agreement and are typically tied to performance that is measured at year end, the disposition of an asset, or at the conclusion of a given project. Fees recognized in the current period that are expected to be received beyond one year have been discounted to the present value of future expected payments.

For financial statement presentation purposes, certain one-time leasing commission payments, aggregating \$10,776 in 1997, made to former Galbreath employees related to contracts in progress at the acquisition date have been presented as a reduction of related commission revenue.

Depreciation

Depreciation and amortization is calculated for financial reporting purposes using the straight-line method based on the estimated useful lives of the assets. Furniture totaling \$17,961 and \$14,865 at December 31, 1998 and 1997, respectively, is depreciated over seven years. Computer equipment and software totaling \$33,347 and \$19,423 at December 31, 1998 and 1997, respectively, are depreciated over three to five years. Leasehold improvements totaling \$13,324 and \$10,803 at December 31, 1998 and 1997, respectively, are amortized over the lease periods ranging from one to 10 years.

Income Taxes

Income taxes are accounted for 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.

Stock-based Compensation

LaSalle grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. LaSalle follows the requirements of the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for stock-based compensation, and accordingly, recognizes no compensation expense for stock option grants, but provides the pro forma disclosures required by the Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation".

Reclassifications

Certain 1997 and 1996 amounts have been reclassified to conform with the 1998 presentation.

NOTE 3: ACQUISITIONS

On October 1, 1998, LaSalle acquired all of the common stock of the following real estate service companies formerly owned by Lend Lease Corporation ("Lend Lease"): COMPASS Management and Leasing, Inc. and its wholly owned subsidiaries; The Yarmouth Group Property Management, Inc.; and ERE Yarmouth Retail, Inc. (formerly COMPASS Retail, Inc.). On October 31, 1998, LaSalle also acquired COMPASS Management and Leasing (Australia) Pty Limited, the Lend Lease property and facility management business in Australia. Atlanta-based COMPASS Management and Leasing, Inc. was a global real estate management firm, with operations across the United States, United Kingdom, South America and Australia. LaSalle paid \$180,000 in cash for all of the acquired companies ("COMPASS"). The purchase of the companies also includes provisions for an earnout payment of up to \$77,500 over five years. The acquisition was accounted for as a purchase and, accordingly, operating results of this business subsequent to the date of acquisition are included in the accompanying Consolidated and Combined Statements of Earnings. The excess purchase price over the fair value of the identifiable assets and liabilities acquired was \$172,893, including transaction costs, of which \$34,579 was allocated to management contracts which is being amortized on a straight-line basis over eight years and \$138,314 was allocated to goodwill which is being amortized on a straight-line basis over 40 years based on LaSalle's estimate of useful lives.

On January 2, 1998, LaSalle acquired the project management business of Satulah Group Inc., a national project management and facilities conversion company with operations across the United States, for \$5,471 in cash. The acquisition was accounted for as a purchase and, accordingly, operating results of the business subsequent to the date of acquisition are included in the accompanying Consolidated and Combined Statement of Earnings. The excess purchase price over the fair value of the identifiable assets and liabilities acquired was \$5,421, including transactions costs, of which \$1,084 was allocated to management contracts which is being amortized on a straight-line basis over three years and \$4,337 was allocated to goodwill which is being amortized on a straight-line basis over 40 years based on LaSalle's estimate of useful lives.

On April 22, 1997, LaSalle acquired all of the common stock of Galbreath, a property, facility and development management company. In consideration for the stock, LaSalle issued a 17.5% limited partnership interest in the Predecessor Partnerships to the former stockholders of Galbreath. The acquisition was accounted for as a purchase and, accordingly, operating results of this business subsequent to the date of acquisition are included in the accompanying Consolidated and Combined Statements of Earnings. The excess purchase price over the fair value of the identifiable assets and liabilities acquired was \$30,576, including transaction costs, of which \$6,115 was allocated to management contracts that are being amortized on a straight-line basis over eight years and \$24,461 was allocated to goodwill which is being amortized on a straight-line basis over 40 years based on LaSalle's estimate of useful lives.

On October 17, 1996, LaSalle acquired all of the common stock of CIN Property Management Limited, a London, England investment and property management private limited liability company, for \$15,709 including transaction expenses. The name of the entity was immediately changed to CIN LaSalle Investment Management ("CIN"). The acquisition was accounted for as a purchase and accordingly, operating results of this business subsequent to the date of acquisition are included in the accompanying Consolidated and Combined Statements of Earnings. The excess purchase price over the fair value of the identifiable assets and liabilities acquired was \$15,700, of which \$4,710 was allocated to advisory contracts which are being amortized on a straight-line basis over five years and \$10,990 was allocated to goodwill that is being amortized on a straight-line basis over a period of 20 years based on LaSalle's estimate of useful lives.

The pro forma results of such acquisitions, with the exception of COMPASS and Galbreath, are not material to LaSalle's consolidated and combined financial statements (Note 7).

NOTE 4: PENDING MERGER

On October 22, 1998, LaSalle announced that it had reached a definitive agreement to merge its operations with Jones Lang Wootton ("JLW"). The transaction, principally structured as a share exchange, has been approved by the LaSalle Board of Directors, the Boards of Directors of the JLW companies and partnerships, and the JLW shareholders and partners. Completion of the transaction is subject to approval by LaSalle's shareholders, regulatory and tax clearances, and other customary conditions. A proxy statement soliciting approval of the merger has been mailed to shareholders, and a special meeting has been scheduled for March 10, 1999. Under the terms of the agreement, LaSalle will issue up to 14,254,116 shares of common stock, plus approximately \$6,199 in cash, subject to a closing net worth adjustment. The transaction is expected to be accounted for as a purchase and to close in early 1999, however, there can be no assurance that the transaction will be completed.

NOTE 5: DISPOSITION

Effective December 31, 1996, LaSalle sold its Construction Management business and certain related assets to a former member of management for a \$9,100 note. The note, which is secured by the current and future assets of the business, is due December 31, 2006 and bears interest at rates of 6.8% to 10.0%, with interest payments due annually. Annual principal repayments began in January 1998. The outstanding note totaled \$8,500 as of December 31, 1998.

Under the terms of the Asset Purchase Agreement, LaSalle has agreed to provide certain administrative and financial services, at cost, beginning in January 1997 and may provide certain financial assistance if necessary. For financial reporting purposes, LaSalle has not treated the transaction as a divestiture. The results of operations of the Construction Management business will be accounted for similar to the equity method of accounting. As such, principal and interest to be received under the note will be treated as a reduction of such net assets and as a reserve, if necessary, for any anticipated financial exposure under the terms of the Asset Purchase Agreement with the remainder recognized as income.

Revenue recognized under the equity method totaled \$1,257 and \$1,100 for the years ended December 31, 1998 and 1997, respectively. Revenue related to the Construction Management business for the year ended December 31, 1996 totaled \$5,678. For financial statement presentation purposes, the 1996 revenue has been presented net of related expenses totaling \$4,407, as part of Fee Based Services revenue in the accompanying Consolidated and Combined Statements of Earnings.

NOTE 6: BUSINESS SEGMENTS

On January 1, 1998, LaSalle adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." LaSalle's operations have been classified into three business segments based upon the nature of services provided to customers: Leasing and Management Services, Financial and Corporate Services and LaSalle Investment Management. The Leasing and Management Services segment provides three primary service capabilities: (i) property and facility management and leasing for property owners; (ii) development services for both investors and real estate users seeking to develop new buildings or renovate existing facilities; and (iii) project management of tenant improvements in both owner-occupied and leased space. The Financial and Corporate Services segment provides transaction and advisory services through three primary service capabilities, including: (i) tenant representation for corporations and professional services firms; (ii) investment banking services to address the financing, acquisition, and disposition needs of real estate owners; and (iii) land acquisition services for owners and users of land. The LaSalle Investment Management segment provides real estate investment management services to institutional investors, corporations and high net worth individuals.

Total revenue by industry segment includes revenue derived from services provided to other segments. Operating income represents total revenue less direct and indirect allocable expenses. LaSalle allocates all expenses, other than interest and income taxes, as substantially all expenses incurred benefit one or more of the segments. LaSalle measures segment profitability based on segment operating income. Merger related non-recurring charges are not allocated to segments. Summarized financial information by business segment for 1998, 1997 and 1996 is as follows:

	<i>1998</i>	<i>1997</i>	<i>1996</i>
LEASING AND MANAGEMENT SERVICES			
Revenue:			
Property and facility management fees	\$ 62,317	43,547	32,143
Leasing fees	43,099	25,159	14,819
Development services	11,229	8,853	5,825
Project management	17,479	7,994	6,297
Intersegment revenue	1,046	195	200
Equity in earnings from unconsolidated ventures	47	340	—
Other income	880	464	281
	<u>136,097</u>	<u>86,552</u>	<u>59,565</u>
Operating expenses:			
Compensation, operating and administrative expenses	119,079	75,039	46,794
Depreciation and amortization	7,620	3,605	1,651
Operating income	\$ 9,398	7,908	11,120
FINANCIAL AND CORPORATE SERVICES			
Revenue:			
Tenant representation	\$ 42,558	33,485	28,793
Investment banking	27,058	19,401	6,664
Land fees	9,591	5,955	4,536
Construction operations	1,257	1,100	1,271
Equity in earnings from unconsolidated ventures	322	476	1,380
Intersegment revenue	1,307	1,464	1,000
Other income	342	422	253
	<u>82,435</u>	<u>62,303</u>	<u>43,897</u>
Operating expenses:			
Compensation, operating and administrative expenses	61,231	45,240	32,410
Depreciation and amortization	1,321	1,197	1,055
Operating income	\$ 19,883	15,866	10,432
LASALLE INVESTMENT MANAGEMENT			
Revenue:			
Advisory fees	\$ 77,306	70,817	52,217
Acquisition fees	6,402	3,600	2,939
Equity in earnings from unconsolidated ventures	3,542	2,422	1,840
Other income	1,035	738	195
	<u>88,285</u>	<u>77,577</u>	<u>57,191</u>
Operating expenses:			
Compensation, operating and administrative expenses	65,189	61,946	49,132
Depreciation and amortization	4,514	4,291	2,710
Operating income	\$ 18,582	11,340	5,349

	1998	1997	1996
Total segment revenue	\$ 306,817	226,432	160,653
Intersegment revenue eliminations	(2,353)	(1,659)	(1,200)
Net segment revenue	\$ 304,464	224,773	159,453
Total segment operating expenses	\$ 258,954	191,318	133,752
Intersegment operating expense eliminations	(2,353)	(1,659)	(1,200)
Net segment operating expenses	\$ 256,601	189,659	132,552
Total segment operating income	\$ 47,863	35,114	26,901
Merger related non-recurring charges ⁽¹⁾	\$ 10,021	—	—
Operating income	\$ 37,842	35,114	26,901

- (1) Merger related non-recurring charges consist of integration and transition costs related to the COMPASS acquisition and non-capitalizable merger related expenses associated with the pending merger with JLW.

Identifiable assets by segment are those assets that are used by or are a result of each segment's business. Corporate assets are principally cash and cash equivalents, deferred tax assets, office furniture and leasehold improvements.

The following table reconciles segment identifiable assets to consolidated assets, investments in real estate ventures accounted for under the equity method to consolidated investments in real estate ventures and fixed asset expenditures to consolidated fixed asset expenditures.

	1998			1997			1996
	<i>Investments</i>		<i>Fixed</i>	<i>Investments</i>		<i>Fixed</i>	<i>Fixed</i>
	<i>Identifiable</i>	<i>in Real Estate</i>	<i>Asset</i>	<i>Identifiable</i>	<i>in Real Estate</i>	<i>Asset</i>	<i>Asset</i>
	<i>Assets</i>	<i>Ventures</i>	<i>Expenditures</i>	<i>Assets</i>	<i>Ventures</i>	<i>Expenditures</i>	<i>Expenditures</i>
Leasing and Management Services	\$ 287,965	1,172	9,299	66,943	961	2,606	2,102
Financial and Corporate Services	57,284	5,887	1,385	38,464	776	532	1,079
LaSalle Investment Management	98,060	45,917	1,540	53,468	16,343	624	1,079
Corporate	47,612	—	3,368	61,012	—	2,515	6,530
Consolidated	\$ 490,921	52,976	15,592	219,887	18,080	6,277	10,790

LaSalle maintains operations and provides services outside of the United States. International revenue derived principally from Europe aggregated \$28,323, \$25,621 and \$7,676 in 1998, 1997 and 1996, respectively. Identifiable assets of such operations aggregated \$38,898, \$22,859 and \$26,702 at December 31, 1998, 1997 and 1996, respectively.

NOTE 7: PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following Combined Pro Forma results for 1998 and 1997 give effect to the acquisition of COMPASS as if it had occurred on January 1, 1997. COMPASS Pro Forma results reflect historical operating results for the nine months ended September 30, 1998 and the year ended December 31, 1997, as adjusted for (i) the anticipated impact on the amortization of intangible assets and goodwill resulting from the acquisition, (ii) incremental interest expense resulting from borrowings used to fund the acquisition, and (iii) income taxes for LaSalle and COMPASS as if both entities were taxable for those periods at an effective tax rate of 39.2%.

LaSalle Pro Forma results for 1997 and 1996 give effect to (i) the acquisition of Galbreath in April 1997, as adjusted for the Tenant Representation and Investment Banking units which were not acquired, (ii) the provision for income taxes as though LaSalle and Galbreath were taxable entities at an effective tax rate of 38.5%, and (iii) estimated incremental general and administrative costs associated with operations as a public company and the repayment of LaSalle's long-term debt out of the proceeds of the initial public offering, as if these events occurred on January 1, 1996.

The pro forma adjustments are based upon available information and certain assumptions that Management of LaSalle believes are reasonable. The pro forma consolidated and combined financial statements are not necessarily indicative of what the actual results of operations would have been for the years ended December 31, 1998, 1997, and 1996 had LaSalle completed the acquisitions of COMPASS and the Galbreath common stock and consummated its conversion to corporate form and the Offering transactions as of the dates indicated nor does it purport to represent the future financial position or results of operations of LaSalle.

UNAUDITED PRO FORMA CONSOLIDATED AND COMBINED STATEMENTS OF EARNINGS

Revenue:

Fee based services

Equity in earnings from unconsolidated ventures

Other income

Total revenue

Operating expenses:

Compensation and benefits

Operating, administrative and other

Depreciation and amortization

Total operating expenses before merger related non-recurring charges

Operating income before merger related non-recurring charges

Merger related non-recurring charges

Operating income (loss)

Interest expense

Earnings (loss) before provision (benefit) for income taxes

Net provision (benefit) for income taxes

Net earnings (loss)

Basic earnings per common share

Weighted average shares outstanding

Diluted earning per common share

Diluted weighted average shares outstanding

	1998			1997		1996	
	<i>LaSalle Historical</i>	<i>COMPASS Pro Forma</i>	<i>Combined Pro Forma</i>	<i>LaSalle Pro Forma</i>	<i>COMPASS Pro Forma</i>	<i>Combined Pro Forma</i>	<i>LaSalle Pro Forma</i>
\$	298,296	60,077	358,373	227,762	83,856	311,618	183,349
	3,911	—	3,911	3,311	—	3,311	3,792
	2,257	1,308	3,565	1,911	948	2,859	2,257
	304,464	61,385	365,849	232,984	84,804	317,788	189,398
	172,982	36,282	209,264	128,365	46,053	174,418	104,294
	70,164	20,203	90,367	60,212	23,251	83,463	47,480
	13,455	7,137	20,592	9,756	9,612	19,368	7,447
	256,601	63,622	320,223	198,333	78,916	277,249	159,221
	47,863	(2,237)	45,626	34,651	5,888	40,539	30,177
	10,021	—	10,021	—	—	—	—
	37,842	(2,237)	35,605	34,651	5,888	40,539	30,177
	4,153	9,137	13,290	1,000	12,100	13,100	1,075
	33,689	(11,374)	22,315	33,651	(6,212)	27,439	29,102
	13,224	(4,360)	8,864	12,956	(2,200)	10,756	11,204
\$	20,465	(7,014)	13,451	20,695	(4,012)	16,683	17,898
\$	1.26		0.83	1.28		1.03	1.10
	16,215,478		16,215,478	16,200,000		16,200,000	16,200,000
\$	1.25		0.82	1.27		1.02	1.10
	16,387,721		16,390,111	16,329,555		16,337,102	16,329,555

Pro forma total revenue and operating expenses for COMPASS include activities such as property management and leasing, facility management and retail management. Adjustments to operating expenses reflect the allocation of the purchase price to intangibles and goodwill resulting in reduced goodwill amortization expense of \$6,676 and \$1,160 for 1998 and 1997, respectively. As a result of LaSalle's borrowings of \$180,000 to fund the COMPASS acquisition, the incremental increase in interest expense was \$3,437 and \$8,275 for 1998 and 1997, respectively. Finally, the pro forma results for 1998 and 1997 further include a decrease in the provision for income taxes of \$390 and \$3,889, respectively, giving effect to LaSalle and COMPASS as taxable entities at an effective tax rate of 39.2%. LaSalle's Leasing and Management Services segment and COMPASS have highly duplicative regional infrastructure through which cost synergies may be achieved but have not been reflected in the pro forma.

LaSalle anticipates that it will incur total integration and transition costs of approximately \$16,900 or \$10,300 on an after-tax basis which have been and will be charged to operations primarily in 1998 and the first half of 1999. Merger related non-recurring charges incurred by LaSalle in 1998 include integration and transition costs related to the COMPASS acquisition and non-capitalizable merger related expenses associated with the pending merger with JLW.

Pro forma total revenue and operating expenses for Galbreath include activities such as property management and development management. Additional adjustments to operating expenses were made for estimated incremental general and administrative costs associated with operations as a public company totaling \$563 and \$750 for 1997 and 1996, respectively. As a result of the repayment of LaSalle's long-term notes payable out of the proceeds of the Offering, the related actual interest expense totaling \$2,955 and \$4,655 for 1997 and 1996, respectively, has been eliminated in the pro forma results. The pro forma results further include an additional provision of income taxes totaling \$7,677 and \$9,787 for 1997 and 1996, respectively, giving effect to the conversion of LaSalle and Galbreath to taxable entities.

NOTE 8: INVESTMENTS IN REAL ESTATE VENTURES

LaSalle has invested in certain real estate ventures that own and operate commercial real estate. These investments include non-controlling general and limited partnership ownership interests generally ranging from less than 1% to 49.5% of the respective ventures. LaSalle has made initial capital contributions to the ventures and has remaining commitments to certain ventures for additional capital contributions of approximately \$6,656 as of December 31, 1998. Substantially all venture interests are held by corporate subsidiaries of LaSalle. Accordingly, LaSalle's exposure to liabilities and losses of the ventures is limited to its initial and remaining commitments. To the extent LaSalle's investment basis differs from its share of the equity of an unconsolidated investment, such difference is amortized over the depreciable lives of the investee's investment assets.

Included in investment in real estate ventures is an \$18,800 investment in LaSalle Hotel Properties ("LHO"), a real estate investment trust, which completed its initial public offering in April 1998. LHO was formed to own hotel properties and to continue and expand the hotel investment activities of LaSalle by investing particularly in upscale and luxury full service hotels located primarily in major business and urban, resort and convention markets. LaSalle provides advisory, acquisition and administrative services to LHO for which it receives a base advisory fee calculated as a percentage of net operating income, as well as performance fees based on growth in funds from operations on a per share basis. Such performance fees, if any, are paid in the form of LHO common stock or units, at LaSalle's option. LHO was formed with 10 hotels, nine of which LaSalle had a nominal co-investment in and acted as the investment advisor for.

In accordance with the individual investment advisory agreements, LaSalle earned and received performance fees totaling \$15,200 on the disposition of certain of the assets. LaSalle contributed its ownership interests in the hotels as well as the related performance fees to LHO for an effective ownership interest of approximately 6.4%.

Such investments have been accounted for under the equity method of accounting in the accompanying Consolidated and Combined Financial Statements. As such, LaSalle recognizes its share of the underlying profits and losses of the ventures as revenue in the accompanying Consolidated and Combined Statements of Earnings. LaSalle generally is entitled to operating distributions in accordance with its respective ownership interests.

Summarized combined financial information for the above unconsolidated ventures is presented below:

	<i>1998</i>	<i>1997</i>	<i>1996</i>
BALANCE SHEET:			
Investments in real estate	\$ 2,021,372	1,236,217	
Total assets	\$ 2,513,483	1,406,236	
Mortgage indebtedness	\$ 614,349	579,310	
Total liabilities	\$ 977,194	631,807	
Total equity	\$ 1,536,289	774,429	
Investments in unconsolidated ventures	\$ 52,083	17,100	
STATEMENTS OF OPERATIONS:			
Revenues	\$ 298,886	288,709	212,048
Net earnings	\$ 104,095	96,725	35,333
Equity in earnings from unconsolidated ventures	\$ 3,911	3,238	3,220

During 1998 and 1997, LaSalle made loans to certain of these real estate ventures, of which \$15,498 and \$4,716 was outstanding at December 31, 1998 and 1997, respectively, and is included in notes and other receivables in the accompanying Consolidated Balance Sheet. These notes, which carried an interest rate of approximately 9.0%, are typically repaid within one year. LaSalle also has investments that are accounted for using the cost method that totaled \$893 and \$980 at December 31, 1998 and 1997, respectively. Certain of LaSalle's capital contributions to the ventures are represented by notes payable that totaled \$349 and \$618 at December 31, 1998 and 1997, respectively. Such notes are generally interest bearing and mature in 2000.

NOTE 9: DEBT

Credit Facilities

In September 1998, LaSalle obtained a \$175,000 credit facility (the "Acquisition Facility") to finance the acquisition of COMPASS (Note 3). The Acquisition Facility, which is placed with a syndicate of seven banks, has a one year term with two six-month extensions and bears a variable rate of interest based on market rates. LaSalle's effective interest rate was 6.1% in 1998 and the outstanding balance on the Acquisition Facility was \$175,000 at December 31, 1998.

In November 1997, LaSalle replaced its \$70,000 credit agreement, which consisted of a short-term revolving line of credit and a long-term facility, with a \$150,000, five year unsecured revolving credit facility. The facility is guaranteed by certain of LaSalle's subsidiaries and is available for working capital, co-investment and acquisitions. The facility bears variable rates of interest based on market rates and requires LaSalle to pay a commitment fee of .15% per annum on the unused portion of the commitment.

LaSalle's effective interest rate was 6.0%, 6.7% and 6.9% in 1998, 1997 and 1996, respectively. The outstanding balance on the facility at December 31, 1998 was \$27,923. LaSalle had no outstanding debt on the facility at December 31, 1997.

Under the terms of the Acquisition Facility and the revolving credit facility, LaSalle must maintain a certain level of consolidated net worth and ratio of funded debt to earnings before interest expense, income taxes, depreciation and amortization expense, and must meet a minimum fixed charge coverage ratio. Additionally, LaSalle is restricted from, among other things, incurring certain levels of indebtedness to lenders outside of the facilities, disposing of a significant portion of its assets, and is subject to lender approval on certain levels of co-investment.

Subordinated Loans

Subordinated loans consisted of Class A and Class B unsecured notes payable to two former limited partners of the Predecessor Partnerships. The amounts outstanding on the Class A and Class B notes, which were \$37,213 at December 31, 1996, were repaid out of the proceeds of the Offering.

NOTE 10: LEASES

LaSalle leases office space in various buildings for its own use with remaining lease terms at December 31, 1998 ranging from one to nine years. The terms of these operating leases provide for LaSalle to pay base rent and a share of increases in operating expenses and real estate taxes in excess of defined amounts.

Minimum future lease payments (i.e., base rent) due in each of the next five years ending December 31 are as follows:

	<i>Amount</i>
1999	\$ 8,777
2000	8,063
2001	7,412
2002	6,328
2003	5,257
Thereafter	10,929
	<u>\$ 46,766</u>

Rent expense was \$9,812, \$7,146 and \$6,117, during 1998, 1997 and 1996, respectively.

NOTE 11: INCOME TAXES

For the period prior to the incorporation of the Predecessor Partnerships, the accompanying Consolidated and Combined Statements of Earnings include a federal and state income tax provision for wholly owned corporate subsidiaries and a state tax provision for certain states that require partnerships to pay income taxes. For the period January 1, 1997 through July 21, 1997, such amounts aggregated \$1,112. No other provision for income taxes was made for those periods as the liability for such taxes would have been that of the respective partners of the Predecessor Partnerships. As a result of LaSalle's conversion from partnership to corporate form in July 1997, a tax benefit of \$6,842 was recognized related to deferred tax assets recorded in accordance with the provisions of SFAS No. 109 arising from temporary differences between the book and tax basis of LaSalle's assets and liabilities at the date of conversion.

For the year ended December 31, 1998 and for the period subsequent to conversion in 1997, LaSalle's

provision for income taxes aggregated \$13,224 and \$11,009, respectively, and consisted of the following:

	1998			1997		
	Current	Deferred	Total	Current	Deferred	Total
U.S. Federal	\$ 11,843	(1,970)	9,873	3,930	2,656	6,586
State and local	2,819	(144)	2,675	823	1,000	1,823
Foreign	1,506	(830)	676	2,600	—	2,600
	\$ 16,168	(2,944)	13,224	7,353	3,656	11,009

Income tax expense for 1998 and for the period subsequent to conversion for 1997 differed from the amounts computed by applying the U.S. federal income tax rate of 35% to earnings before provision for income taxes (\$33,689 for the year ended December 31, 1998 and \$28,596 for the period July 22, 1997 through December 31, 1997) as a result of the following:

	1998		1997	
Computed "expected" tax expense	\$ 11,791	35.0%	10,009	35.0%
Increase (reduction) in income taxes resulting from:				
State and local income taxes, net of federal income tax benefit	1,739	5.2%	1,185	4.1%
Amortization of non-deductible goodwill	(1,182)	(3.5%)	(573)	(2.0%)
Non-deductible expenses	807	2.4%	205	0.7%
Other, net	69	0.2%	183	0.7%
	\$ 13,224	39.3%	11,009	38.5%

Domestic and foreign earnings before provision for income taxes for the year ended December 31, 1998 were \$29,907 and \$3,782, respectively. Foreign earnings before provision for income taxes are not considered material for 1997 and 1996.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31,		July 22,
	1998	1997	1997
DEFERRED TAX ASSETS:			
Foreign tax credit carryforwards	\$ 3,800	2,600	—
Foreign loss carryforwards	830	—	—
Accrued expenses	3,957	2,205	7,139
Property and equipment	1,644	1,397	1,166
Allowances for uncollectible accounts	3,238	2,208	2,208
Other	355	554	1,475
	\$ 13,824	8,964	11,988
DEFERRED TAX LIABILITIES:			
Investments in real estate ventures	\$ 2,483	2,820	2,602
Other	716	1,065	651
	\$ 3,199	3,885	3,253

In connection with the COMPASS acquisition, LaSalle recorded deferred tax assets of \$2,602 as part of its purchase price allocation.

There is no valuation allowance for deferred tax assets as of December 31, 1998 and 1997. In assessing whether the deferred tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets are deductible, management believes it is more likely than not that LaSalle will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 1998 and 1997, LaSalle has available \$3,800 and \$2,600 of foreign tax credit carryforwards for U.S federal income tax purposes, which expire in 2003 and 2002, respectively. There were also foreign loss carryforwards at December 31, 1998 approximating \$2,400 which expire in 2003 and thereafter. Current income taxes payable and receivable at December 31, 1998 and 1997 were \$8,237 and \$916, respectively.

NOTE 12: STOCK OPTION AND STOCK COMPENSATION PLANS

Retirement Plan

LaSalle has a qualified profit sharing plan that incorporates IRC Section 401(k) for its eligible employees. Contributions under the qualified profit sharing plan are made via a combination of employer match and an annual contribution on behalf of eligible employees. Included in the accompanying Consolidated and Combined Statements of Earnings for the years ended December 31, 1998, 1997 and 1996 are contributions of \$1,750, \$1,652 and \$1,009, respectively.

Related trust assets of the Plan are managed by trustees and are excluded from the accompanying Consolidated and Combined Financial Statements.

Stock Award and Incentive Plan

In 1997, LaSalle adopted a stock award and incentive plan that provides for the granting of options to eligible participants of LaSalle to purchase a specified number of shares of common stock. Under the plan, the total number of shares of common stock available to be issued is 2,215,000. There is a proposed amendment to the stock option plan which would increase the total number of shares of common stock available to be issued to 4,160,000 which will be voted upon by shareholders at the special meeting on March 10, 1999. The options are granted at the market value of common stock at the date of grant. The options vest at such times and conditions as the Compensation Committee of the Board of Directors of LaSalle determines and sets forth in the award agreement. Such options granted in 1998 vest over a period of four to six years. Such options granted in 1997 vest over a period of one to six years. Certain 1997 options having a six-year vesting period are subject to an accelerated vesting schedule based on the future average stock price. At December 31, 1998 and 1997, there were 973,100 and 1,477,000 additional shares, respectively, available for grant under the stock award and incentive plan. In January 1999, LaSalle issued 514,137 additional options.

The per share weighted-average fair value of options granted during 1998 and 1997 was \$16.44 and \$11.63 on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

	<i>1998</i>	<i>1997</i>
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	4.95%	6.95%
Expected life	6 to 9 years	6 to 9 years
Expected volatility	41.50%	16.50%
Contractual terms	7 to 10 years	7 to 10 years

LaSalle accounts for its stock option and compensation plans under the provisions of SFAS No. 123, which allows entities to continue to apply the provisions of APB No. 25 and provide pro forma net income and net income per share disclosures for employee option grants as if the fair-value-based method defined in SFAS No. 123 had been applied. LaSalle has elected to apply the provisions of APB No. 25 in accounting for its stock award and incentive plan, and, accordingly, no compensation cost has been recognized for its stock award and incentive plan in the Consolidated and Combined Financial Statements. Had LaSalle determined compensation cost based upon the fair value at the date of grant for its options as set forth under SFAS No. 123, LaSalle's net earnings, basic earnings per common share and diluted earnings per common share for the year ended December 31, 1998 and for the period subsequent to conversion, July 22, 1997, through December 31, 1997 for 1997, would have been \$15,689, \$0.97, \$0.96, and \$23,924, \$1.48 and \$1.47, respectively.

Stock option activity is as follows:

	<i>1998</i>		<i>1997</i>	
	<i>Shares (000)</i>	<i>Weighted- Average</i>	<i>Shares (000)</i>	<i>Weighted- Average</i>
Outstanding at beginning of year	738.0	\$ 23.29	—	\$ —
Granted	524.9	31.71	740.5	23.29
Exercised	—	—	—	—
Forfeited	(21.0)	29.56	(2.5)	23.00
Outstanding at end of year	1,241.9	\$ 26.75	738.0	\$ 23.29

At December 31, 1998 and 1997, the range of exercise prices and weighted-average remaining contractual life of outstanding options was \$23.00-\$43.88 and 7.6 years, and \$23.00-\$35.06 and 9.5 years, respectively. At December 31, 1998, approximately 534,000 options were exercisable. None of the options were exercisable at December 31, 1997.

Other Stock Compensation Programs

LaSalle maintains a Stock Compensation Program ("SCP") for eligible employees. Under this plan, employee contributions for stock purchases will be enhanced by LaSalle through an additional contribution of 15%. Employee contributions vest immediately while LaSalle contributions are subject to various vesting periods. The related compensation cost is amortized to expense over the vesting period. As of December 31, 1998, no shares have been issued under this plan.

In 1998, LaSalle adopted an Employee Stock Purchase Plan (“ESPP”) for eligible employees. Under this plan, employee contributions for stock purchases will be enhanced by LaSalle through an additional contribution of 15%. Employee contributions and LaSalle contributions vest immediately. As of December 31, 1998, 64,176 shares have been issued under this plan.

NOTE 13: TRANSACTIONS WITH AFFILIATES

Certain employees of LaSalle have an ownership interest in Diverse Real Estate Holdings Limited Partnership (“Diverse”). Diverse has an ownership interest in and operates investment assets, primarily as the managing general partner of real estate ventures. Included in the accompanying Consolidated Balance Sheets is a long-term receivable, net of allowance, from Diverse totaling \$1,663 at December 31, 1998 and 1997.

Certain officers of LaSalle are trustees for real estate funds that were organized by a subsidiary. LaSalle earns advisory and management fees for services rendered to the funds. Included in the accompanying Consolidated and Combined Financial Statements are revenues of \$2,285, \$4,209 and \$10,306 for 1998, 1997 and 1996, respectively, as well as receivables of \$116 and \$496 at December 31, 1998 and 1997, respectively, related to such services.

LaSalle also earns fees and commissions for services rendered to affiliates of Dai-ichi Life Property Holdings, Inc. and Galbreath Holdings, LLC, two significant stockholders, real estate ventures in which LaSalle has an equity interest, and ventures in which Diverse has an ownership interest. Included in the accompanying Consolidated and Combined Financial Statements are revenues from such affiliates of \$45,867, \$32,957 and \$18,866 for 1998, 1997 and 1996, respectively, as well as receivables for reimbursable expenses and revenues as of December 31, 1998 and 1997 of \$9,320 and \$6,159, respectively.

NOTE 14: COMMITMENTS AND CONTINGENCIES

LaSalle is a defendant in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Most of these litigation matters are covered by insurance. In the opinion of management, the ultimate resolution of such litigation matters will not have a material adverse effect on the financial position, results of operations, or liquidity of LaSalle.

The following table sets forth certain unaudited consolidated and combined statements of earnings data for each of LaSalle's last eight quarters. In the opinion of Management, this information has been presented on the same basis as the audited Consolidated and Combined Financial Statements appearing elsewhere in this report, and includes all adjustments, consisting only of normal recurring adjustments and accruals, that LaSalle considers necessary for a fair presentation. The unaudited consolidated and combined quarterly information should be read in conjunction with LaSalle's Consolidated and Combined Financial Statements and the notes thereto. The operating results for any quarter are not necessarily indicative of the results for any future period.

<i>(\$ in thousands)</i>	<i>March 31</i>	<i>June 30</i>	<i>Sept. 30</i>	<i>Dec. 31</i>	<i>Year</i>
1998					
Revenue ⁽¹⁾:					
Leasing and Management Services	\$ 18,368	26,470	28,851	61,362	135,051
Financial and Corporate Services	9,358	18,694	20,045	33,031	81,128
LaSalle Investment Management	23,339	29,048	15,936	19,962	88,285
Total revenue	51,065	74,212	64,832	114,355	304,464
Operating income (loss) before merger related non-recurring charges ⁽¹⁾⁽³⁾	(5,349)	12,220	8,229	32,763	47,863
Merger related non-recurring charges ⁽³⁾	—	—	—	10,021	10,021
Operating income (loss) ⁽¹⁾	\$ (5,349)	12,220	8,229	22,742	37,842
Net earnings (loss)	\$ (3,440)	7,310	4,806	11,789	20,465
Basic earnings (loss) per common share	\$ (0.21)	0.45	0.30	0.73	1.26
Diluted earnings (loss) per common share	\$ (0.21)	0.45	0.29	0.72	1.25
1997					
Revenue ⁽¹⁾⁽²⁾:					
Leasing and Management Services	\$ 10,782	18,839	22,067	34,672	86,360
Financial and Corporate Services	4,527	14,339	12,996	28,975	60,837
LaSalle Investment Management	16,397	24,740	16,795	19,644	77,576
Total revenue	\$ 31,706	57,918	51,858	83,291	224,773
Operating income (loss) ⁽¹⁾	\$ (3,272)	9,203	5,951	23,232	35,114
Net earnings (loss)	\$ (4,719)	6,940	7,610	16,009	25,840
Basic earnings per common share ⁽⁴⁾		\$ 0.51	0.99	1.50	
Diluted earnings per common share ⁽⁴⁾		\$ 0.51	0.98	1.49	

(1) Excludes intersegment revenue and intersegment expense.

(2) Historical management revenue and operating expenses have been reclassified to reflect personnel cost reimbursements received on property or specific client assignments on a net rather than gross basis. There was no effect on operating income or net earnings as historically reported.

(3) Merger related non-recurring charges include integration and transition costs related to the COMPASS acquisition and non-capitalizable merger related expenses associated with the pending merger with JLW.

(4) Basic and diluted earnings per common share for 1997 are based on earnings for the period from conversion to corporate form, July 22, 1997, through December 31, 1997.

BOARD OF DIRECTORS

<p>STUART L. SCOTT</p> <p>Chairman and Chief Executive Officer Jones Lang LaSalle</p>	<p>CHRISTOPHER A. PEACOCK</p> <p>President and Deputy Chief Executive Officer Jones Lang LaSalle</p>	<p>DANIEL W. CUMMINGS</p> <p>Co-Chief Executive Officer LaSalle Investment Management, Inc.</p>
<p>HENRI-CLAUDE DE BETTIGNIES</p> <p>Professor INSEAD</p>	<p>DARRYL HARTLEY-LEONARD</p> <p>Formerly Chief Executive Officer and Chief Operating Officer Hyatt Hotels</p>	<p>DEREK A. HIGGS</p> <p>Chairman Prudential Portfolio Managers</p>
<p>PETER H. T. LEE</p> <p>Chairman, Hong Kong Jones Lang LaSalle</p>	<p>DAVID K. P. LI</p> <p>Chairman and Chief Executive The Bank of East Asia</p>	<p>CLIVE J. PICKFORD</p> <p>Chairman, Europe Jones Lang LaSalle</p>
<p>M.G. ROSE</p> <p>Chief Executive Officer, Global Services Management Jones Lang LaSalle</p>	<p>MICHAEL J. SMITH</p> <p>Deputy Chairman Jones Lang LaSalle</p>	<p>ROBERT C. SPOERRI</p> <p>Chief Executive Officer, Americas Jones Lang LaSalle</p>
<p>THOMAS C. THEOBALD</p> <p>Managing Director William Blair Capital Partners</p>	<p>JOHN R. WALTER</p> <p>Retired President and Chief Operating Officer AT&T</p>	



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SEC FORM 10-K AND OTHER INFORMATION

Requests for Jones Lang LaSalle's 1998 Annual Report on Form 10-K (which will be provided free of charge) and any other inquiries from individuals and institutional investors should be directed to:

Jones Lang LaSalle Incorporated
Investor Relations Department
200 East Randolph Drive Chicago IL 60601
tel +1 312 228 2430

INDEPENDENT AUDITORS

KPMG LLP
303 East Wacker Drive Chicago IL 60601

SHAREHOLDERS

As of February 26, 1999, there were approximately 3,000 beneficial holders of Jones Lang LaSalle's common stock.

COMMON SHARE MARKET PRICES

Jones Lang LaSalle's common stock is listed on the New York Stock Exchange (NYSE), ticker symbol JLL.



Following are the LAP high and low sales prices for 1998 on the NYSE for the corporate information page of the annual report:

	High	Low
First Quarter	\$ 36.8125	\$ 30.50
Second Quarter	\$ 48.00	\$ 31.375
Third Quarter	\$ 44.50	\$ 32.6875
Fourth Quarter	\$ 32.6875	\$ 21.9375

DIVIDENDS

Jones Lang LaSalle has not paid cash dividends on its common stock to date. Jones Lang LaSalle intends to retain its earnings to support the expansion of the business and therefore does not intend to pay cash dividends for the foreseeable future. Any payment of future dividends and the amounts thereof will be at the discretion of the Board of Directors and will depend upon Jones Lang LaSalle's financial condition, earnings, and other factors deemed relevant by the Board of Directors.