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KELLER WILLIAMS REALTY (B)

INTRODUCTION

Keller Williams Realty was built on an operating model that relied on economies of scale and a cultural model that relied on the principles of profit sharing, interdependence, and success through the efforts of others. The company had successfully leveraged this model since the 1980s to grow from a single office in Austin, Texas to become the third-largest residential real estate company in the U.S., with over 79,000 agents.

The company's history, however, was not without its challenges. In 2005, the U.S. real estate market began to collapse, precipitating a financial crisis and deep recession. As sales activity weakened across the nation, the profitability of the firm's market centers fell dramatically. The leaders of Keller Williams knew they had to take decisive action. Bold initiatives were put in place to boost agent count, increase productivity, and reduce expenses throughout the organization. In the end, the company not only remained profitable but thrived. Keller Williams' associates achieved this success by leveraging the strengths of the company's operating model and refusing to compromise on its core principles and values. With a commitment to training and education as the cornerstone on which the company was built, Keller Williams continued to teach economic, organizational, and operational models that stressed responsible business practices for its offices and its agents' businesses. This, coupled with a focus on remaining an agent-led company, allowed the company to seize the economic downturn as an opportunity to emerge as the only national real estate firm to grow over the second half of the decade.

COLLAPSE OF THE REAL ESTATE MARKET

The residential real estate market of the late 1990s and early 2000s was characterized by an unprecedented increase in home ownership. In 2005, 69 percent of U.S. households owned the

Professor James N. Baron of the Yale School of Management, Professor David F. Larcker of the Stanford Graduate School of Business, and Brian Tayan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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homes in which they lived, up from 65 percent a decade before. Sales transactions and home prices also increased during this period. For example, in 1995, 667,000 new homes and 3.8 million existing homes were sold. By 2005, these figures had increased to 1.3 million and 7.1 million, respectively. The median price of an existing home nearly doubled, from $113,000 to $208,300.[1]

The trend, however, was not sustainable. By the end of the decade, the U.S. real estate market reversed course. Home prices, which had risen steadily, flattened and then declined. By 2009, the median home price had fallen to $172,500. Sales of new homes plunged by 70 percent, to 375 thousand units. Sales of existing homes also fell, to 5.2 million units. It was the first nation-wide decline in the U.S. housing market since the Great Depression (see **Exhibit 1**).

KELLER WILLIAM RESPONSE

The leadership of Keller Williams was aware of problems in the housing market as early as 2005. That year, Gary Keller, co-founder and chairman of the firm, sent an e-mail message to market centers with the subject line, "Storm Clouds Are Coming." In 2006, he warned agents at Family Reunion that problems were brewing and that they should prepare for a downturn.[2] He and the other leaders of Keller Williams observed a reduction in lending quality and worried that it would lead to borrower defaults that would eventually impact the availability of mortgages and sales activity.

In the fourth quarter of 2007, these concerns began to be realized. While the Keller Williams international office continued to register strong profits, the profitability of the market centers plummeted. Previously, market centers had generated owner profits in the range of $5 to $7 million per month. In October 2007, profits for the month had fallen to $330,000 for all the market centers. It was a dramatic reversal.

Still, company leadership benefited from early awareness of the problem. They credited this awareness in part to the fact that Keller Williams operated on a single financial platform. The practice of profit sharing required that individual market centers upload their financial data monthly so that the international office could calculate how to distribute profits. To facilitate this calculation, the company maintained a single financial system to which all market centers were connected. This allowed company leadership to monitor market conditions on a national, regional, and market-center basis, giving them an informational advantage that competitors did not have.[3] This, coupled with the leadership's ongoing interaction with their agents and market

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[1] U.S. Census Bureau, "Homeownership Rates by Area," http://www.census.gov/hhes/www/housing/hvs/annual08/ann08ind.html; U.S. Census Bureau and the Department of Housing and Urban Development, "New Residential Sales," http://www.census.gov/const/www/newressalesindex.html; and National Association of REALTORS, "Existing Home Sales, Monthly Data for the U.S. and Regions," http://www.realtor.org/research/research/ehsdata (November 1, 2010).

[2] Family Reunion is an annual gathering of all Keller Williams team members for educational and inspirational activities. See: James N. Baron and Brian Tayan, "Keller Williams Realty (A)," GSB Case No. HR-29(A), April 12, 2007.

[3] Most real estate firms operate on a patchwork of financial systems, with each office maintaining a proprietary system. As a result, executives at the national or international office typically do not have access to the current financial information of local offices.

center leaders—through meetings, webinars, conference calls, and events—allowed the leaders to act quickly.

Witnessing the reduction in profitability, members of the international office reached out to regional directors across the country. They learned that closings were being delayed. More worrisome, the delays were not caused by a decrease in demand but a reduction in the availability of credit. That is, even when a buyer reached an agreement with a seller, banks were denying access to loans. It was apparent that this would not be a passing phenomenon but instead would have serious consequences for the housing market.

The leaders of the company knew they needed to act. Gary Keller, Mo Anderson (vice chairman), Mark Willis (chief executive officer), and Mary Tennant (president and chief operating officer) met to discuss what to do. According to Tennant, "It was a pivotal moment in the history of our company."[4] Their decision went well beyond what most leaders would do in such a situation. They would deposit $1 million of their personal money (later increased to $1.25 million) in a dedicated fund to support team members across the company. The money would be used for educational and training purposes, and to fund other initiatives to boost revenues and decrease expenses. Together, these activities were launched under the banner "Operation: Heart to Heart."

HEART TO HEART

"Operation: Heart to Heart" was not a new name. The company had first launched an initiative titled "Heart to Heart" following the devastation of Hurricane Katrina in 2005. At the time, local market center leaders coordinated with the international office to spearhead an effort to aid agents and their families affected by the disaster. Bob Kilinski, co-owner of the southeast region, recalled a conversation with Mo Anderson, who told him, "We are going to show the heart of this company, that it truly is what it says it is in a time of crisis." What followed was an all-out effort by team members across the company to locate displaced agents, make sure they had shelter, connect them back with their market centers, and support them and their families financially and psychologically while they rebuilt their lives. The company raised more than $5 million in donations through its private foundation, KW Cares, to finance these efforts.

The spirit of volunteerism of Heart to Heart set the tone for what became known as "Operation: Heart to Heart 2" (or H2H2). The leaders of Keller Williams viewed the market downturn as the economic version of a natural disaster. As such, they believed similar efforts should be dedicated to support those affected. In the case of H2H2, however, the money was donated by the senior-most leaders of the company. Because Keller Williams was a profit-sharing company, they knew that a corporate investment to finance H2H2 would reduce the size of the profit pool, thereby hurting the team members they were trying to help.

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[4] Unless otherwise noted, quotations in this case are from interviews with company executives conducted by the authors in May and June 2010.

The money was deposited in a fund and managed by Bryon Ellington, chief products officer. The amount of the donation was originally $1 million but later increased to $1.25 million.[5] These funds were used to finance new initiatives to create revenues and cut expenses, with an emphasis on education and training that was open to all participants in the business: the owners of the market centers ("operating principals"), the leaders of the market centers ("team leaders"), and agents. In this way, H2H2 was consistent with the company's core belief system of integrity, teamwork, and success through others.[6] As Mo Anderson explained, "This was not a handout of money. We wanted to teach them how to succeed as owners and as individuals." Mary Tennant agreed: "We set out to make our real estate agents and our offices the best real estate business people in the nation, the most educated, the best informed, and the most responsive."

LEADERSHIP OUTREACH

The first act of H2H2 was a broad outreach to operating principals and team leaders. Mark Willis, Mary Tennant, and Mo Anderson personally called market centers to explain the economic situation and offer assistance. Together with regional leaders, they reviewed financials, reviewed recruiting plans, and developed action plans on how to succeed. They offered positive lessons but also held each market center accountable for delivering on their plans.

At the same time, Gary Keller—with other company instructors—developed an educational series called "Thriving in a Shifting Market." The content of the series was based on current research that Keller was conducting for a book (later to become the national bestselling *SHIFT*) on the 12 tactics that successful agents employed to thrive during a market downturn.[7] Knowing that the agents could not wait until the book's publication in mid 2008, Keller began working with Keller Williams University to develop classes to teach the concepts to agents immediately. Between 2007 and 2009, H2H2 sponsored three separate tours, making over 100 stops with approximately 40,800 agents attending. Keller taught many of these sessions personally. H2H2 paid for instructor and travel fees, and the company brought in sponsors to defray the cost of the venues. As a result, agents were able to attend the sessions for free.

Michael Brodie, market center owner in both the west and the east, credited the leaders of the company for getting in front of the problem and maintaining high visibility throughout the downturn. According to Brodie, "They stepped forward and invested financially as well as personally. It really reflects the culture of the company…. We've always said we are a company by agents and for agents." He also credited the company for taking what he called "a fiduciary position" toward its franchises: "Keller Williams adds real value to the franchise. There is an ongoing relationship and information flow. We don't just say, 'Here is a franchise

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[5] The second installment was referred to as Heart 2 Heart 3. However, this case refers to both initiatives jointly as H2H2 for simplicity.

[6] The company's belief system was encapsulated in the acronym WI4C2TS (pronounced "why four see two tees"). These stood for "win win, or no deal" (W), "integrity, do the right thing" (I), "customers, always come first" (C), "commitment, in all things" (C), "communication, seek first to understand" (C), "creativity, ideas before results," (C), "teamwork, together everyone achieves more" (T), "trust, starts with honesty" (T), and "success, results through people" (S). See: Keller Williams (A).

[7] Gary Keller, *SHIFT: How Top Real Estate Agents Tackle Tough Times*, (New York: McGraw Hill, 2008).

license. Good luck.'" He contrasted this with the actions of many competitors who responded to the downturn by reducing training and education. Instead, Keller Williams encouraged continuing investment in its people.

COST REDUCTION

One of the next steps of H2H2 was an all-out effort to reduce operating and overhead expenses throughout the organization. Market centers had expanded aggressively prior to the downturn on the assumption that the good times would last. As Tennant explained, "So many people were making great profits that they started spending more, building offices to the size of the profits. Expenditures were way out of control." Some market centers had leased spaces much larger than they would be able to support in a downturn. Several had paid top dollar for the additional space. With leasing costs the largest item in the budget (after personnel), the leaders of Keller Williams knew these market centers were greatly exposed.[8]

As a result, they decided to offer rent reduction services to market centers in need. Keller Williams did not own a commercial real estate company at the time, and so it hired a third-party firm to help.[9] The leaders of the company then called franchises and offered free lease negotiation services, with the cost borne by H2H2. The response was very positive. According to Anderson, "How would you like it if we called you up and said, 'At no cost to you, we are going to have our consultant renegotiate your lease,' and the lease goes from $20,000 per month to $10,000 per month? This is a service that market centers love." Through this process, Keller Williams was able to reduce the rent on dozens of market centers across the country.

The company also reduced costs by encouraging consolidation when appropriate. Such a move was considered a last resort. Keller Williams assigned a representative from the international office to provide coaching and consulting to any market center that was unprofitable. If the situation could not be reversed, a member of the international office conducted a joint conference call with the market center leaders and the regional director to discuss alternative arrangements. Potential solutions included a merger of two struggling offices in nearby locations, or the merger of an unsuccessful office into a successful office. According to Ginger Gibson, vice president of franchise systems, who led these conversations:

> Instead of sending legal letters, we call and discuss the situation and potential solutions, much as you would with a family member…. We try to position it in a very friendly way: 'How are you doing? I'm sure this must be hard on you. I know this isn't what you expected when you first bought this franchise. Let's brainstorm on how this might work.…' What we ideally hope for is that each person self-discovers that it would be a smart idea to merge with another person and create a win for both of them.

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[8] At the same time, Mo Anderson pointed out that the problems of expense control were not necessarily correlated to the economics of each specific region. She used Temecula, California as an example: "Temecula had the worst record of any geographical area at one point, but they had strong leadership, controlled expenses, recruited the right people, and trained, trained, trained, and they thrived in this market." Ginger Gibson (vice president of franchise systems) agreed: "Everything rises and falls on leadership."

[9] Keller Williams subsequently opened its own commercial company, KW Commercial.

The merging owners benefited in that they retained the profit share from the agents they recruited, which tended to be a large number. They would no longer have the liabilities and overhead of running the business but would continue to participate in the profits those agents generated. In addition, Keller Williams respected their territory, so that when the housing market recovered they would have a chance to get their territory back. Ellington explained, "The last thing we want to do is add insult to injury and turn somebody away, so we look for how we can help people transition." The operating principals and team leaders of the market center generally remained with Keller Williams. The team leader might become an assistant team leader in the merged office, or become team leader of a new market center.

During the downturn, the company closed 30 offices. Twenty-seven of these were mergers. Of the mergers, over 99 percent of the owners, team leaders, and agents remained with the company. At the same time, the company continued to open new offices in new markets.

The international office also looked for ways to aggressively reduce costs. Rather than engage in layoffs, the international office implemented a hiring freeze that allowed for reductions in staffing through attrition and retirement. According to Ellington:

> Most companies immediately look at salaries as the biggest opportunity for cutting expenses fast. We made a commitment to our staff that we were not going to do layoffs…. We did not want people to go backwards and take a salary cut. In any organization, the most valuable thing you have is the people you work with. To do layoffs and pay cuts would have killed who we are as a company, our identity, and our culture.

Instead, employees were asked to do more with less. The company held brainstorming sessions, which originated such ideas as shrinking the size of the company magazine to reduce printing and mailing costs. When attrition occurred, employees pulled together to backfill the work. Tennant explained, "In 2009, we offered more products and services than we had ever offered, and we did it with lower costs, in smarter ways, without layoffs." The hiring freeze was ultimately lifted in 2010.

PROFIT CAMP

Another major emphasis of H2H2 was the investment in education and training for market center leaders and agents. During the market downturn, the company initiated or expanded over a dozen training programs tailored to various participants in the business. Two of the most prominent programs were Profit Camp and BOLD.

Profit Camp was first developed by Bob Kilinski as a personal effort to teach market centers in his region how to manage expenses and improve productivity. Mark Willis asked Kilinski to work with Dianna Kokoszka, president of the MAPS division, to develop these lessons into a one-day course that could be taught across the country.[10] Kilinski then travelled the country,

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[10] MAPS stood for Mega Achievement Productivity Systems. The MAPS division was responsible for developing coaching systems for agents, operating principals, and team leaders.

starting with the places that had been hit the hardest (such as California, Florida, and Nevada) and then moving to regions that would be hit later (such as Georgia, Virginia, and Washington).

Profit Camp was a bare-bones operation. Kilinski was the lone instructor. He brought with him a flip chart, a workbook, and a microphone. A typical class included three representatives from each of the participating market centers in the region. They were asked to bring with them their standardized reports from the Keller Williams reporting system, including financial statements, scorecards, and everything they used to keep track of the business. Profit Camp was divided into two sessions. The morning session focused on practical lessons for monitoring and improving the business. During the afternoon session, each market center developed action plans to turn around their business in 90 days.

There were three primary lessons of Profit Camp: cost reduction, productivity increases, and agent recruitment. These were summarized by the acronym CPR. To Kilinski, there were parallels between turning around a struggling business and performing CPR. The first was the necessity of understanding vital signs as a precondition to assigning a correct diagnosis. In a patient, vital signs included pulse, blood pressure, temperature, and breathing rate. In a business, they included the performance measures that were vital to the success of the organization, such as size of the market center, rate of growth or loss in agent count, and productivity in terms of sales transactions, expense ratio, and profit margin. Only by understanding these performance measures could a market center understand where it was succeeding and where it was failing. Second, as in CPR, market center leaders needed to adopt a "911 mentality" to prevent the business from going into distress. Rather than intending to take action eventually, they needed to commit to take action immediately.

Kilinski then took them through the steps of CPR. Market center leaders were taught how to cut expenses without sacrificing services. As Kilinski said, "You can cut out what you do for agents, but then they leave you." Instead, he encouraged a collaborative effort between the team leaders and the Agent Leadership Council (ALC).[11] This would lead to more diverse ideas for expense reduction and give agents ownership of the process. Examples of cost reduction included renegotiation of leases, downsizing space, subleasing, and squeezing cost items to ensure that the market center was only buying what it needed at the lowest available price.

Market centers were also encouraged to put in place massive and aggressive initiatives to increase revenue. Rather than retrench, Kilinski told them to invest in agent education to drive profitability. In doing so, he reiterated the lessons of Gary Keller's *SHIFT* book and training. He also encouraged market centers to ramp up their agent recruitment efforts, in particular agents of competitive firms that were cutting back. Finally, he recommended that market centers talk to competitors about mergers or fold-ins that would eliminate overhead for those competitors and bring in new agents and clients to the Keller Williams market centers.

[11] The Agent Leadership Council was a committee comprising the owners of the market center, the team leader, and the top agents. The ALC made recommendations on all aspects of the management of the market center, including finances, recruiting, marketing, training, community involvement, and backend operations. See: Keller Williams (A).

As with other initiatives of H2H2, Profit Camp had a rigorous follow-up system that demanded accountability. Each market center was assigned a coach from the MAPS division who worked with the operating principal on an ongoing basis. The coach went through the action plan that the market center had developed and asked for the results. The operating principals had to show that they were on target with their objectives, including lease renegotiations, cost reductions, agent recruiting, and productivity events.

Kilinski was proud of H2H2 and believed that initiatives such as Profit Camp helped Keller Williams survive the downturn better than other firms. "We have had the least number of closes, we have agent growth, and more profits than any other competitor." More importantly, Kilinski believed that H2H2 reflected the culture of the company:

> Our culture is sharing and caring. This Heart to Heart 2 program says, 'We care. We have best practices. And we are going to share.' That is prevalent in everything we do. The leadership of this company will go to the most length I've ever seen…. And although it sounds very biased (which I am) and very passionate (which I believe), this company is incredible when it comes to the heart. It is a company with a heart and a company with a soul. We are continuing to reinvent ourselves.

BOLD

Following the success of Profit Camp, the leaders of Keller Williams asked Dianna Kokoszka to develop a program to improve agent productivity. With agents facing a difficult real estate market, the company wanted to offer a program that would teach them not only to adapt but to thrive. According to Mo Anderson, "When the market is really good, agents are order takers. When the market is really bad, they have to develop skill. And this skill is what BOLD actually teaches them."

BOLD stood for "Business Objective, a Life by Design." The premise of BOLD was that many individuals go through life on a default setting, putting up with what comes their way rather than living a life of their choosing. BOLD taught them to change their mindset, to design the life they wanted, and to live it ("a life by design"). According to Kokoszka, "Life is about choices, and we are where we are at because of the choices we have made. We all have limiting beliefs, and this course teaches people to break through those limiting beliefs."

The course was divided into eight steps, taught over an eight-week period. Each session focused on specific lessons, which included both work components and life-improvement components. Work lessons included product knowledge, time management, prospecting, how to list a home, how to work with buyers, contracting, and communication. Life lessons included mindset, self management, staying positive, how to get through breakdowns, gratitude, discipline, personal energy, and how to contribute to the life of another person. Students not only completed exercises and practiced scripts, they set specific work and life-related goals and were held accountable for achieving them during the course. As Mary Tennant explained, "Education without accountability falls into [the category of] entertainment, rather than change." Agents were divided into teams and were responsible for helping each other achieve their goals. If the agent did not achieve their objectives, they received a foul. After five fouls, they were removed from the class.

The leaders of Keller Williams were particularly proud of the impact of BOLD. Eleven thousand agents participated in the program, averaging 9.2 contracts per agents during the eight-week period. The level of activity of BOLD participants was comparable to what a typical agent might otherwise produce in a year. Just as important, Tennant believed BOLD created a subculture within Keller Williams: "They come out of the class stronger, better, and happier." Kokoszka agreed: "Market centers are feeling a new energy, a renewed energy…. People are helping others more than they ever have. They are showing gratitude, not complaining. They are solution-oriented, rather than problem-oriented. They have accountability."

OTHER COURSES

Under H2H2, Keller Williams developed over a dozen other training initiatives to benefit agents, team leaders, and operating principals. Examples included:

- Breakthrough to Mastery: A series of 12 courses to teach the principals of Gary's Keller's national bestseller, *SHIFT*.
- LeadershipMountain.com: A free website where market center leaders could learn the latest information on recruiting, expense control, and other leadership challenges.
- Grow Your Profit Share Tree: An initiative to teach agents how to recruit new agents to the company and increase their passive income through profit share.
- Top 10 Operating Principals and Top 10 Team Leaders: Teletraining classes in which successful operating principals and team leaders share their experiences and teach other market centers how to succeed.
- Mergers and Acquisitions Workshops: Training sessions to teach market center leaders how to approach struggling competitors in the area about a merger or fold-in.
- Specialized Business: Training courses on specialized business functions such as short sales and foreclosures, which only a small number of agents traditionally have expertise in.
- Scholarships to operating principals to attend third-party training on how to find, hire, train, and lead great team leaders.
- Leadership Institute: Paid searches to identify new team leaders among agents, and train them about leadership opportunities in Keller Williams.

Many of these courses were offered through KW University, the company's proprietary training school. Historically, agents paid for the cost of printed course materials ($15 to $20 per manual) and, if the course was taught in a classroom setting, they paid to cover the cost of the venue ($99). The leaders of Keller Williams knew that the first instinct of struggling agents would be to cut discretionary spending. However, they knew that if agents cut back on education, it would reduce their productivity, thereby causing more harm. As a result, they put the materials for all KW University courses online and made them available for free to all agents. They also dropped travel fees associated with instructors and executives who travelled from the international office to teach courses. These costs were absorbed by H2H2.

The decision to offer free training built tremendous goodwill throughout the company. Local leaders knew that competitors were increasing fees and adding expenses in order to help the finances of the parent company. According to Ginger Gibson, "It looked like we were penalizing our company because we were spending all this money. In fact, it actually helped grow and sustain our company because it helped sustain our people, in both a financial sense and an emotional sense."

RED DAY

Although not funded by H2H2, Keller Williams launched another major initiative during this period that was consistent with the spirit and objectives of Heart to Heart. RED Day was an initiative whereby all team members of Keller Williams were encouraged to donate time and money to help their local communities. The idea for RED Day (which stood for "renew, energize, and donate") came from Cory Older, controller at Keller Williams. Older told the leaders of Keller Williams that at his previous company employees took a day off work each year to do community service.

Keller Williams adopted the practice. The company selected May 12, 2009 as the first RED Day.[12] Each market center was responsible for selecting its own set of volunteer activities, and agents were invited to sign up for those that interested them. Examples included food drives, blood drives, fundraisers, repairs, and reconstruction. For example, the Tucson office volunteered to do physical repairs at a local hospitality center where individuals with medical challenges stayed while they underwent treatment. Agents donated time and money to paint the facilities, repave the driveway, redo the roof, and landscape the property.

The leaders of Keller Williams saw RED Day as an important way to not only give back to the community but also to build and preserve the culture of the company. According to Mo Anderson:

> Here you have this economic tsunami and all of these people are hurting financially. And then you have this day where everyone gives back to the community, and they discover that there are people who are suffering a lot worse than they are…. When you provide your people with skill and also provide them with an opportunity to give back to the community, it binds them together in a way that is very powerful.

In 2009, approximately 25,000 Keller Williams associates volunteered 125,000 hours on RED Day. A year later, over 30,000 associates volunteered 150,000 hours.

RESULTS

To many within Keller Williams, H2H2 was instrumental in helping the company survive the economic downturn with surprising strength. In 2009, Keller Williams market centers generated combined profit of $80.1 million, in a year when almost every major franchise lost money. The company achieved this level of profitability by meeting its objectives of boosting agent count and agent productivity. Contracts closed increased from 340,800 in 2008 to 385,000 in 2009,

[12] May 12 was Mo Anderson's birthday.

and agent count increased from 74,200 to 76,700, even as the overall market declined (see **Exhibits 2 and 3**).[13]

Through its efforts, Keller Williams emerged from the recession in a strong competitive position. While its top three competitors (Coldwell Banker, Century 21, and RE/MAX) closed a combined 160 offices, Keller Williams grew its office count from 660 in 2007 to 680 by 2010. While Keller Williams boosted its agent count, these competitors shed 38,000 agents.

In another sign of the company's success, Keller Williams was named the number one real estate franchise by *Entrepreneur Magazine* in 2009. Keller Williams associates also earned the highest overall satisfaction rating for home buyers among national full service real estate firms by J.D Powers & Associates in 2008, 2009, and 2010.[14]

The leaders of Keller Williams were proud of the manner in which the company achieved these results as much as they were in the results themselves. Ginger Gibson remarked that the downturn "gave us a chance to remind people who we are in our core…. Our people knew and felt that we valued them. They refocused on the systems and models that made us successful in the first place and used those to move forward."

Mike Brodie, market center owner in the west and the east, agreed:

> We didn't come out unscathed. A lot of people were affected by this financially. But I think relatively speaking, we were affected less…. We are closer than ever. Our culture has encouraged our people through these tough times. And I think the openness and visibility of the leadership speaks for itself. Nobody can deny they didn't walk the talk, and we are all better off because of it.

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[13] The term "contracts closed" refers to the number of sales transactions (purchases and sales) by Keller Williams agents.

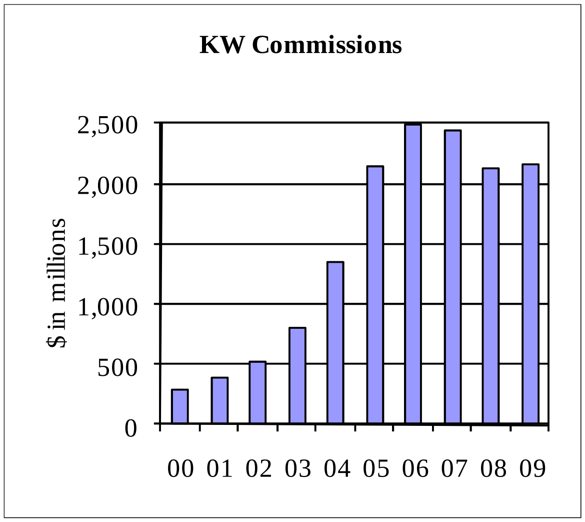
[14] Keller Williams Realty, "Awards." Available at: http://www.kw.com/kw/awards.html (November 1, 2010).

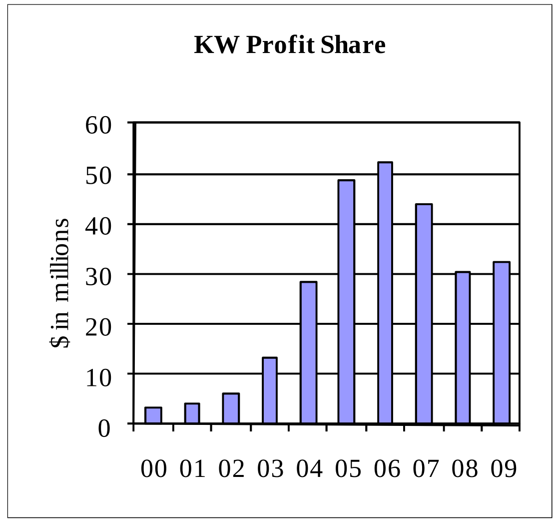
Exhibit 1
Residential Homes Sales (2000-2009)

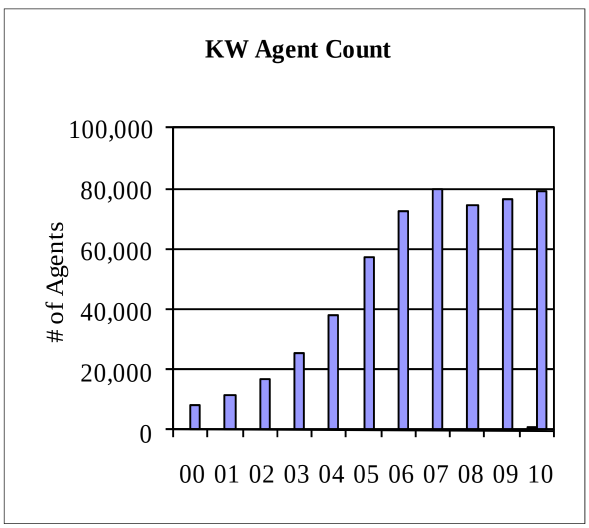
	New Home Sales (thousands)	Change	Existing Home Sales (thousands)	Change
2000	877		5,174	
2001	908	4%	5,335	3%
2002	973	7%	5,632	6%
2003	1,086	12%	6,175	10%
2004	1,203	11%	6,778	10%
2005	1,283	7%	7,076	4%
2006	1,051	(18%)	6,478	(8%)
2007	776	(26%)	5,652	(13%)
2008	485	(38%)	4,913	(13%)
2009	375	(23%)	5,156	5%

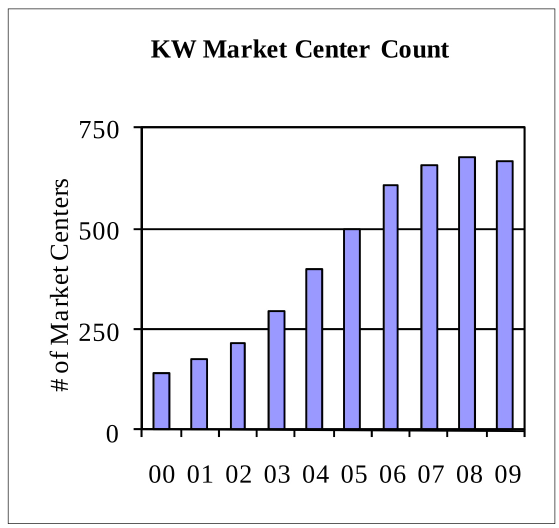
Sources: National Association of REALTORS and U.S. Census Bureau.

Exhibit 2
Keller Williams: Key Operating Statistics (2000-2009)









Source: Keller Williams Realty.

Exhibit 3
Keller Williams vs. Industry Competitors: Productivity Statistics

	Agents per office				Volume per office ($ in millions)			
	2006	**2007**	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
Century 21	35.2	34.0	27.8	33.9	71.2	57.2	52.4	45.8
Coldwell Banker	50.3	50.3	49.9	48.5	153.1	146.1	123.0	104.1
ERA	25.0	26.2	27.9	26.4	53.5	48.3	43.8	40.7
Keller Williams	**142.2**	**124.4**	**115.6**	**133.8**	**214.4**	**165.3**	**141.5**	**155.3**
Prudential	43.5	44.2	45.5	47.9	106.1	102.0	86.7	84.0
RE/MAX	42.8	37.5	37.1	36.6	163.1	134.7	119.8	109.3
Realty Executives	37.2	35.6	38.6	31.4	112.7	91.0	83.9	69.6

	Sides per office*				Sides per agent*			
	2006	**2007**	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
Century 21	302.7	246.3	249.6	240.9	8.6	7.2	9.0	7.1
Coldwell Banker	411.2	364.8	328.0	349.1	8.2	7.2	6.6	7.2
ERA	263.0	231.8	269.7	250.6	10.5	8.9	9.7	9.5
Keller Williams	**947.7**	**700.4**	**620.3**	**765.6**	**6.7**	**5.6**	**5.4**	**5.7**
Prudential	311.7	277.0	252.1	285.6	7.2	6.3	5.5	6.0
RE/MAX	587.1	485.2	490.2	526.1	13.7	12.9	13.2	14.4
Realty Executives	389.1	333.3	353.5	370.6	10.5	9.4	9.2	11.8

Note: The term “sides” refers to transactions done by either the selling agent or the buying agent. Because there are usually two agents on each real estate transaction, the industry reports approximately twice as many sides as home transactions.

Source: Real Trends 500 Survey.