

Keller Williams Realty International Corporate Due Diligence

By: Jason Fenwick

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***"I've researched hundreds of companies and have never
seen a company with such exemplary rankings in every aspect."***

— Jason Fenwick
Windsor, Wyeth & Ward, LLC

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Executive Summary

Jason Fenwick was retained by Emerick Peace (Keller Williams' Operating Partner in Upper Marlboro, Maryland) to perform a due diligence evaluation of the franchise opportunity with Keller Williams, prior to his investment. The purpose of the evaluation was to provide an unbiased assessment of Keller Williams' (KW) business model, including its strengths and weaknesses, associated growth, and any potential liabilities.

As part of the due diligence, Mr. Fenwick conducted a Financial Analysis, Media Analysis, and Litigation Analysis. The results of the analysis show that Keller Williams has created a successful business model, which is gaining market share nationally:

1. Keller Williams has sustained consistent double-digit growth in the core areas of its business over several years:
 - a. Sales are up 71% to \$713 million YTD.
 - b. Franchise office openings are up 27% to 382 offices nationally YTD
 - c. New agent hiring is up 52% to 33,158 agents nationally YTD.
 - d. Corporate Profit Sharing is up 120% to \$15.8 million.
 - e. None of KW's growth was financed through debt. Corporate Debt=\$0 (zero dollars).
2. Keller Williams' agent-centric model focuses the company's resources at the agent level, in an effort to empower the agents to grow their businesses. KW has invested strategically in technological tools aimed at increasing agent productivity.
3. Keller Williams has sustained consistent growth in attracting new agents through its hybrid real estate model, which incorporates a generous commission structure (70-30% commission split with a corporate cap) and a unique profit-sharing program (which allows the agent to receive residual income for life upon vesting).
4. Keller Williams has grown through structured franchise growth, while maintaining minimal management layers between headquarters and franchisee offices.
5. Media Analysis of 2,073 print stories (from 1991-2004) revealed positive coverage by mainstream media in all major markets nationally.
6. Litigation Analysis (from 1991-2004) revealed no potential liabilities to possible investment.

Jason W. Fenwick Biography

Jason Fenwick has recently joined the consulting firm of Windsor, Wyeth & Ward, LLC as a partner in the Business Advisory Group. Windsor, Wyeth & Ward LLC specializes in a wide range of consultative services, including Due Diligence Analysis, Business Systems Analysis, Six Sigma Analysis, Litigation Analysis, Company Valuation, Contract Negotiations, Business Plan Development and Pro Forma Analysis. Jason specializes in a three-dimensional (legal, financial and operational) approach to the business issues presented by his clients.

Prior to joining Windsor Wyeth & Ward, LLC, Jason worked six years in the North American Legal Market Sector of an international publisher, negotiating contracts and developing financial presentations. Jason received his Finance degree from Hampton University and his law degree from the University of Florida. Prior to attending law school, Jason worked in the corporate finance and marketing/sales divisions of two Fortune 500 companies. During his tenure with these companies, Jason won many corporate awards for developing innovative business programs. These awards were the catalyst for his participating in various national projects with the senior management of several disciplines: Finance, Sales, Marketing and Operations. Jason has also worked as a Business Analyst for a venture capitalist, performing due diligence and company valuations for technology-based clients.

These experiences have broadened Jason's perspective and matured his approach to business. Jason's goals are to assist his clients with strengthening their business models and the development of efficient corporate strategies.

Jason Fenwick

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Education:

- Law Degree from University of Florida
- Finance Degree from Hampton University

Consultative Services:

- Due Diligence
- Business Systems Analysis (Financial, Operational, Marketing, Sales)
- Company Valuations and Pro Forma Analysis
- Competitive Analysis
- Contract Negotiations
- Media Analysis
- Litigation Analysis
- Business Plans
- Six Sigma Analysis

Background

Factors

- Corporate Background
- Corporate Management
- Corporate Philosophy and Goals
- Business Strategy
- Business Awards and Honors
- Key Growth Figures
- Media Analysis
- Litigation Analysis
- Recommendations

Corporate Background

- Founded in 1983 by Gary Keller and Joe Williams
- Franchisor since 1987
- Divided U.S. and Canada into 30 Regions, which then sell geographical franchises
- 382 Offices Nationwide
- 33,158 Agents Nationwide
- Headquartered in Austin, TX

Corporate Management

- Gary Keller: Co-Founder and Chairman
- Mo Anderson: CEO
- Mark Willis: President
- Joe Williams: Co-Founder and Franchisee in TX & NC, not in Corp. Management

NOTE: Small centralized management staff with minimal layers between headquarters and field offices.

Culture

Mission Statement:

- To build careers worth having, businesses worth owning and lives worth living.
- God, Family, then Business

WI4C2TS:

- | | |
|--------------------|---------------------------------|
| • Win-Win.... | Or no deal |
| • Integrity... | Do the right thing |
| • Customers... | Always come first |
| • Commitment... | In all things |
| • Communication... | Seek first to understand |
| • Creativity... | Ideas before results |
| • Teamwork... | Together Everyone Achieves More |
| • Trust... | Starts with honesty |
| • Success... | Results through people |

Corporate Goals for 2004:

- 100 New Market Centers
- 37,000 Agents
- \$20,000,000 Profit Share

Business Strategy

- Traditional Real Estate Models:
 - Compensation Split Model: broker and agent split the commissions on a 50-50% split.
 - Fee-For-Desk Model: Broker supplies all of agent's needs in exchange for a guaranteed monthly fee. Agent Keeps 100% of commissions.
- Keller Williams Business Model:
 - An agent-centric model in which company resources are focused at the agent level to empower the agent. Includes an increased 70-30% commission split (with corporate cap) and a unique open-ended profit-sharing program ("Associate Vesting Program"), which allows the agent to receive residual income for life upon vesting.

Growth

Key Growth Figures

- Sales: (Earned Commissions)
 - 2004: \$713 Million YTD - 71% Growth
 - 2003: \$799 Million - 51% Growth
 - 2002: \$530 Million - 35% Growth
 - 2001: \$390 Million
- Industry Rankings:
 - 2004: Fifth Largest Firm (Tracking)
 - 2003: Sixth Largest Firm
 - 2002: Eighth Largest Firm
- Offices:
 - 2004: 382 Offices - 27% Growth
 - 2003: 300 Offices - 19% Growth
 - 2002: 253 Offices
- Agents:
 - 2004: 33,158 Agents - 52% Growth
 - 2003: 25,000 Agents - 47% Growth
 - 2002: 17,000 Agents
- Corporate Profit Sharing:
 - 2004: \$15.8 Million - 120% Growth
 - 2003: \$13 Million - 106% Growth
 - 2002: \$6.3 Million - 50% Growth
 - 2001: \$4.2 Million
- Corporate Debt: zero dollars (growth is not financed through debt)

Cornerstone of Growth

- Agent-Centric Corporate Focus
- Hybrid Real Estate Model
- Heavy Investment in Technological Tools
- Structured Franchise Growth

Unique Features

- Keller Williams University
- 70-30% Agent Commission Structure
- Residual Income for Agents and Franchisees
- Heavy Investment in Technological Tools
- #1 Real Estate Professional Guide
- Millionaire Agent Seminars

Coverage

Business Awards & Honors

- 2004 Entrepreneur Magazine's 101 Fastest Growing Franchises
- 2003 #1 Best selling Real Estate Success Guide -
The Millionaire Real Estate Agent (Authors: Gary Keller and Dave Jenks)
- 2003 Ernst & Young Entrepreneur of the Year (Gary Keller for Austin & Central Texas)
- 2002 Entrepreneur Magazine's 101 Fastest Growing Franchises
- 1998 Success Magazine's Top 100 Best Franchisers

Media Analysis

- Coverage Analysis: 1991-July 2004
- Nationwide coverage by mainstream print media in major markets
 - Tier One Coverage: (Egs. Boston Herald, Chicago Tribune, Kansas City Star, Seattle Times)
 - Tier Two Coverage: (Egs. Charlotte Business Journal, Atlanta Business Chronicle, Bellingham Business Journal, Florida Today)
 - Specialty Media Coverage: (Egs. Entrepreneur, eWeek, Mortgage Technology, Satellite Weekly)
 - Newswires Coverage: (PR Newswire, Bus Wire, Knight Ridder)
- Total Print Stories: 2,073
- Total Positive Stories: 2,070
- Total Negative Stories: 3 (Two are very soft negatives)

Legal

Litigation Analysis:

- Coverage Analysis: 1990-2004
- Civil Suites (114 Nationwide):
 - KW as Plaintiff: 22 Cases
 - KW as Defendant: 89 Cases
 - KW as Add'l Party: 2 Cases
 - Corporate Headquarters not listed as a party in any cases
 - Gary Keller is listed as a co-defendant in one case
- Types of Cases
 - Deceptive Trade Practices: 8 Cases (Franchises exclusively in Bexar County, Texas)
 - Fraud: 1 Case (Franchise in San Diego, California)
 - Bankruptcy: 1 Case (Franchise in Florida)
 - Small Claims: 22 Cases
 - Contracts: 28 Cases
 - Personal Injury/Wrongful Death: 3 Cases
 - Torts: 2 Cases
 - Lease: 1 Case
 - Unlawful Detainer: 4 Cases
 - Divorce: 2 Cases
 - Misc. Equity: 2 Cases
 - Declaratory Judgment: 3 Cases
 - Injunction: 1 Case
 - Damages: 17
- Jury Verdicts & Settlements (Appeals):
 - Philen v. Beathard Insurance Agency, Beacon Insurance Agency, All Around Inspections, and Keller Williams Realty. (Texas) September 12, 2003: Parties settled claim for \$234,500 of which KW paid \$12,500 for plaintiffs claim that mold rendered their newly purchased home uninhabitable. This was missed by the home inspector whom KW referred.
 - Rasmussen v. Millie & Stanley Fennig, Deborah Whittington, Remax Associates of Dallas, Jeff Jacobs, Keller Williams Realty and Aaron's Home. (Texas) April 2002: Plaintiff's verdict for \$17,500 damages, 10% payable by Keller Williams, after jury found knowing DPTA violation by KW while rendering professional services.
 - Robbins v. Susan Grosse & Associates d/b/a Keller Williams Realty, Veronica C. Pauline Symon. (Texas) January 30, 1995: Defendant's (KW) Verdict: Plaintiff sues because of a misunderstanding that KW was buyer's agents, not seller's agent and failed to protect her interests. Plaintiff claimed that KW agent failed to file agency disclosure form. Defendant (KW) claims that oral disclosures were made as well as referencing it in the earnest money contract.