REALOGY CORP
Form 10-Q
November 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Nos. 333-173250, 333-173254 and 333-148153

DOMUS HOLDINGS CORP.

REALOGY CORPORATION

(Exact name of registrants as specified in its charter)

Delaware	**20-8050955 and 20-4381990**
(State or other jurisdiction	*(I.R.S. Employer*
of incorporation or organization)	*Identification Numbers)*
One Campus Drive	
Parsippany, NJ	**07054**
(Address of principal executive offices)	*(Zip Code)*

(973) 407-2000

(Registrants telephone number, including area code)

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

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

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

There were 105,000 shares of Class A Common Stock, $0.01 par value, and 200,426,906 shares of Class B Common Stock, $0.01 par value, of Domus Holdings Corp. outstanding as of October 31, 2011. There were 100 shares of Common Stock, $0.01 par value, of Realogy Corporation outstanding as of October 31, 2011.

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INTRODUCTORY NOTE

Except as otherwise indicated or unless the context otherwise requires, the terms we, us, our, our company and the Company refer to Domus Holdings Corp. (Holdings) and its consolidated subsidiaries, including Domus Intermediate Holdings Corp., a Delaware limited liability company (Intermediate) and Realogy Corporation, a Delaware corporation (Realogy). Holdings is not a party to the senior secured credit facility and certain references in this report to our consolidated indebtedness exclude Holdings with respect to indebtedness under the senior secured credit facility. In addition, while Holdings is a guarantor of Realogy s obligations under the Unsecured Notes and the First and a Half Lien Notes, Holdings is not subject to the restrictive covenants in the agreements governing such indebtedness. Holdings, the indirect parent of Realogy, does not conduct any operations other than with respect to its indirect ownership of Realogy. Intermediate, the parent of Realogy, does not conduct any operations other than with respect to its ownership of Realogy. As a result, the condensed consolidated financial positions, results of operations and cash flows of Holdings, Intermediate and Realogy are the same.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in our public filings or other public statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other public statements. These forward-looking statements were based on various facts and were derived utilizing numerous important assumptions and other important factors, and changes in such facts, assumptions or factors could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimate plans, and similar expressions or future or conditional verbs such as will, should, would, may and could are generally forward looking in and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- we have substantial leverage as a result of our April 2007 acquisition by affiliates of Apollo Management VI, L.P. and the related financings (the Merger Transactions). In addition since the Merger Transactions, we have needed to incur additional debt in order to fund negative cash flows, principally due to the significant level of interest expense arising from our substantial leverage. As of September 30, 2011, our total debt (excluding the securitization obligations) was $7,027 million. The housing industry and economy have experienced significant declines since the time of the Merger Transactions that have negatively impacted our operating results. As a result, we have been, and continue to be, challenged by our heavily leveraged capital structure and significant level of interest expense;

- variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase. At September 30, 2011, $2,211 million of our total debt (excluding the securitization obligations and net of interest rate hedges) were at variable rates of interest. Were interest rates to increase 100 basis points (1% change in the interest rate) on our variable rate borrowings, our annual interest expense would increase by approximately $22 million;

- under our senior secured credit facility, our senior secured leverage ratio of total senior secured net debt to trailing 12-month EBITDA, as those terms are defined in the senior secured credit facility, calculated on a pro forma basis pursuant to the senior secured credit facility, may not exceed 4.75 to 1 on the last day of each fiscal quarter. For the twelve months ended September 30, 2011, we were in

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compliance with the senior secured leverage ratio covenant with a ratio of 4.15 to 1.0. While the housing market has shown signs of stabilization, there remains substantial uncertainty with respect to the timing and scope of a full housing recovery and if a housing recovery is delayed or is weak, we may be subject to additional pressure in maintaining compliance with our senior secured leverage ratio;

if we experience an event of default under our senior secured credit facility, including but not limited to a failure to meet our cash interest obligations under such facility, or under our indentures or relocation securitization facilities, or a failure to maintain, or a failure to cure a default of, the applicable senior secured leverage ratio under such instruments, or other lack of liquidity caused by substantial leverage and the adverse conditions in the housing market, such an event would materially and adversely affect our financial condition, results of operations and business;

adverse developments or the absence of sustained improvement in general business, economic, employment and political conditions;

adverse developments or the absence of improvement in the U.S. residential real estate markets, either regionally or nationally, including but not limited to:

- a lack of improvement in the number of homesales, further declines in home prices caused by either absolute price decreases or a change in the mix of business that we conduct and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate;
- a lack of improvement in consumer confidence;
- the impact of future recessions, slow economic growth and high levels of unemployment in the U.S. and abroad;
- increasing mortgage rates and down payment requirements and/or reduced availability of mortgage financing, including but not limited to the potential impact of various provisions of the Dodd-Frank Act and regulations which may be promulgated thereunder relating to mortgage financing, including restrictions imposed on mortgage originators as well as potential retention levels required to be maintained by sponsors to securitize certain mortgages;
- legislative, tax or regulatory changes that would adversely impact the residential real estate market, including but not limited to potential reform relating to Fannie Mae, Freddie Mac and other government sponsored entities that provide liquidity to the U.S. housing and mortgage markets and potential reform of the Internal Revenue Code, including but not limited to any reform that reduces the amount that taxpayers would be allowed to deduct for home mortgage interest;
- negative trends and/or a negative perception of the market trends in value for residential real estate;
- continuing high levels of foreclosure activity including but not limited to the release of homes for sale by financial institutions;
- excessive or insufficient regional home inventory levels;

the inability or unwillingness of homeowners to enter into homesale transactions due to negative equity in their existing homes;

lower homeownership rates due to various factors, including, but not limited to, high unemployment levels, reduced demand or preferred use by households of rental housing due in part to uncertainty regarding future home values;

our geographic and high-end market concentration relating in particular to our company-owned brokerage operations; and

local and regional conditions in the areas where our franchisees and brokerage operations are located;

our inability to access capital and/or to securitize certain assets of our relocation business, either of which would require us to find alternative sources of liquidity, which may not be available, or if available, may not be on favorable terms;

limitations on flexibility in operating our business due to restrictions contained in our debt agreements;

our inability to sustain the improvements we have realized during the past several years in our operating efficiency through cost savings and business optimization efforts;

our failure to enter into or renew franchise agreements, maintain franchisee satisfaction with our brands;

the inability of franchisees to survive the ongoing challenges of the real estate market;

disputes or issues with entities that license us their trade names for use in our business that could impede our franchising of those brands;

actions by our franchisees that could harm our business or reputation, non-performance of our franchisees or controversies with our franchisees;

competition in our existing and future lines of business, including, but not limited to, higher costs to retain or attract sales agents for residential real estate brokerages, and the financial resources of competitors;

our failure to comply with laws and regulations and any changes in laws and regulations;

seasonal fluctuations in the residential real estate brokerage business could adversely affect our business, financial condition and liquidity, particularly during periods in which we have significant fixed cash obligations;

the loss of any of our senior management or key managers or employees;

adverse effects of natural disasters or environmental catastrophes;

any remaining resolutions or outcomes with respect to Cendant s (as defined herein) contingent liabilities under the Separation and Distribution Agreement and the Tax Sharing Agreement, including any adverse impact on our future cash flows;

the cumulative effect of adverse litigation, governmental proceedings or arbitration awards against us and the adverse effect of new regulatory interpretations, rules and laws; and

new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under the headings Forward-Looking Statements and Risk Factors in our Final Prospectus dated June 16, 2011 covering the resale of the Realogy Corporation 11.00% Senior Subordinated Convertible Notes (the Convertible Notes) and the Class A Common Stock of Domus Holdings Corp. issuable upon conversion of the Convertible Notes (the June 2011 Final Prospectus), filed with the Securities and Exchange Commission (SEC), may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Domus Holdings Corp. and Realogy Corporation:

We have reviewed the accompanying condensed consolidated balance sheets of Domus Holdings Corp. and its subsidiaries and Realogy Corporation and its subsidiaries as of September 30, 2011, and the related condensed consolidated statements of operations for the three and nine-month periods ended September 30, 2011 and September 30, 2010 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2011 and September 30, 2010. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of operations, equity (deficit) and cash flows for the year then ended (not presented herein), and in our report dated April 1, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey

November 1, 2011

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DOMUS HOLDINGS CORP. AND REALOGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Gross commission income	$ 831	$ 751	$ 2,279	$ 2,280
Service revenue	211	197	567	518
Franchise fees	73	67	194	203
Other	40	37	125	123
Net revenues	1,155	1,052	3,165	3,124
Expenses				
Commission and other agent-related costs	547	490	1,498	1,479
Operating	324	315	959	925
Marketing	45	42	142	138
General and administrative	62	45	189	180
Former parent legacy costs (benefit), net	(3)	(6)	(17)	(315)
Restructuring costs	3	2	8	12
Depreciation and amortization	46	49	139	148
Interest expense/(income), net	159	151	499	458
Loss on the early extinguishment of debt			36	
Other (income)/expense, net				(6)
Total expenses	1,183	1,088	3,453	3,019
Income (loss) before income taxes, equity in earnings and noncontrolling interests	(28)	(36)	(288)	105
Income tax expense	10	10	12	134
Equity in earnings of unconsolidated entities	(11)	(13)	(15)	(22)
Net loss	(27)	(33)	(285)	(7)
Less: Net income attributable to noncontrolling interests	(1)		(2)	(1)
Net loss attributable to Domus Holdings and Realogy	$ (28)	$ (33)	$ (287)	$ (8)
Earnings (loss) per share attributable to Domus Holdings:				
Basic earnings (loss) per share:	$ (0.14)	$ (0.16)	$ (1.43)	$ (0.04)
Diluted earnings (loss) per share:	$ (0.14)	$ (0.16)	$ (1.43)	$ (0.04)
Domus Holdings weighted average common and common equivalent shares outstanding:				
Basic:	200.4	200.4	200.4	200.4
Diluted:	200.4	200.4	200.4	200.4

See Notes to Condensed Consolidated Financial Statements.

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DOMUS HOLDINGS CORP. AND REALOGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102	$ 192
Trade receivables (net of allowance for doubtful accounts of $66 and $67)	142	114
Relocation receivables	449	386
Relocation properties held for sale	17	21
Deferred income taxes	66	76
Other current assets	91	109
Total current assets	867	898
Property and equipment, net	169	186
Goodwill	2,613	2,611
Trademarks	732	732
Franchise agreements, net	2,858	2,909
Other intangibles, net	450	478
Other non-current assets	208	215
Total assets	$ 7,897	$ 8,029
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 155	$ 203
Securitization obligations	332	331
Due to former parent	78	104
Revolving credit facilities and current portion of long-term debt	200	194
Accrued expenses and other current liabilities	621	525
Total current liabilities	1,386	1,357
Long-term debt	6,827	6,698
Deferred income taxes	885	883
Other non-current liabilities	143	163
Total liabilities	9,241	9,101
Commitments and contingencies (Notes 9 and 10)		
Equity (deficit):		
Domus Holdings common stock: $.01 par value; 4,450,000,000 shares authorized, 105,000 Class A shares outstanding, 200,426,906 Class B shares outstanding at September 30, 2011 and 200,430,906 Class B shares outstanding at December 31, 2010 (Realogy common stock: $.01 par value, 100 shares authorized, issued and outstanding)	2	2
Additional paid-in capital	2,029	2,024
Accumulated deficit	(3,357)	(3,070)
Accumulated other comprehensive loss	(20)	(30)

Total Holdings and Realogy stockholder s deficit		(1,346)		(1,074)
Noncontrolling interests		2		2
Total equity (deficit)		(1,344)		(1,072)
Total liabilities and equity (deficit)	$	7,897	$	8,029

See Notes to Condensed Consolidated Financial Statements.

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DOMUS HOLDINGS CORP. AND REALOGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Activities		
Net loss	$ (285)	$ (7)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	139	148
Deferred income taxes	5	127
Amortization of deferred financing costs and discount on unsecured notes	13	23
Loss on the early extinguishment of debt	36	
Equity in earnings of unconsolidated entities	(15)	(22)
De-designation of cash flow interest rate swaps	17	
Other adjustments to net loss	8	16
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(28)	(35)
Relocation receivables and advances	(64)	(77)
Relocation properties held for sale	4	35
Other assets	4	1
Accounts payable, accrued expenses and other liabilities	51	96
Due (to) from former parent	(25)	(392)
Other, net	11	(15)
Net cash used in operating activities	(129)	(102)
Investing Activities		
Property and equipment additions	(37)	(33)
Net assets acquired (net of cash acquired) and acquisition-related payments	(5)	(2)
Net proceeds from sale of assets		5
Proceeds from (purchases of) certificates of deposits, net	9	(10)
Change in restricted cash	2	4
Other, net	(5)	
Net cash used in investing activities	(36)	(36)
Financing Activities		
Net change in revolving credit facilities	20	117
Proceeds from issuance of First and a Half Lien Notes	700	
Proceeds from term loan extension	98	
Repayments of term loan credit facility	(705)	(24)
Net change in securitization obligations	1	34
Debt issuance costs	(34)	
Other, net	(5)	(9)
Net cash provided by financing activities	75	118
Effect of changes in exchange rates on cash and cash equivalents		

Net decrease in cash and cash equivalents	(90)	(20)
Cash and cash equivalents, beginning of period	192	255
Cash and cash equivalents, end of period	$ 102	$ 235
Supplemental Disclosure of Cash Flow Information		
Interest payments (including securitization interest expense)	$ 354	$ 334
Income tax payments, net	$ 3	$ 7

See Notes to Condensed Consolidated Financial Statements.

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DOMUS HOLDINGS CORP. AND REALOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise noted, all amounts are in millions)

(Unaudited)

1. BASIS OF PRESENTATION

Domus Holdings Corp., a Delaware corporation (Holdings) is a holding company for its wholly owned subsidiary, Domus Intermediate Holdings Corp. (Intermediate). Intermediate is a holding company for its wholly owned subsidiary, Realogy Corporation, a Delaware corporation (Realogy), and its subsidiaries (Holdings, Intermediate and Realogy and its subsidiaries being referred to herein collectively as the Company). Holdings derives all of its operating income and cash flows from Realogy and its subsidiaries.

Holdings was incorporated on December 14, 2006. On December 15, 2006, Holdings and its wholly owned subsidiary Domus Acquisition Corp., entered into an agreement and plan of merger (the Merger) with Realogy which was consummated on April 10, 2007 with Holdings becoming the indirect parent company of Realogy. Holdings is owned by investment funds affiliated with, or co-investment vehicles managed by, Apollo Management VI, L.P., an entity affiliated with Apollo Management, L.P. (collectively referred to as Apollo) and members of the Company s management. As of September 30, 2011, all of Realogy s issued and outstanding common stock was currently owned by Intermediate, a direct wholly-owned subsidiary of Holdings.

Realogy is a global provider of real estate and relocation services. Realogy was incorporated on January 27, 2006 to facilitate a plan by Cendant Corporation (now known as Avis Budget Group, Inc.) to separate into four independent companies one for each of Cendant s business units real estate services or Realogy, travel distribution services (Travelport), hospitality services, including timeshare resorts (Wyndham Worldwide), and vehicle rental (Avis Budget Group). On July 31, 2006, the separation (Separation) from Cendant became effective.

Realogy incurred indebtedness in connection with the Merger which included borrowings under Realogy s senior secured credit facility (the Senior Secured Credit Facility) and the issuance of unsecured notes. See Note 6, Short and Long-Term Debt for additional information on the indebtedness incurred related to the Merger and for additional information related to the senior secured leverage ratio that Realogy is required to maintain. An equity contribution to the Company of $2,001 million was also made by Apollo as well as members of Realogy s management who purchased Holdings common stock with cash or through rollover equity. Realogy also refinanced the credit facilities covering the relocation securitization facilities (the Securitization Facilities Refinancing). The term Merger Transactions refer to, collectively, (1) the Merger, (2) the issuance of unsecured notes, (3) the initial borrowings under the Senior Secured Credit Facility, including the synthetic letter of credit facility, (4) the equity investment, and (5) the Securitization Facilities Refinancing.

The accompanying Condensed Consolidated Financial Statements include the financial statements of both Holdings and Realogy and these statements have been prepared in accordance with accounting principles generally accepted in the United States of America and with Article 10 of Regulation S-X. Interim results may not be indicative of full year performance because of seasonal and short-term variations. The Company has eliminated all material intercompany transactions and balances between entities consolidated in these financial statements. In presenting the Condensed Consolidated Financial Statements, management makes estimates and assumptions that affect the amounts reported and the related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ materially from those estimates.

Holdings only asset is its investment in the common stock of Intermediate, and Intermediate s only asset is its investment in the common stock of Realogy. Holdings only obligations are its guarantees of certain borrowings of Realogy. All expenses incurred by Holdings and Intermediate are for the benefit of Realogy and have been reflected in Realogy s consolidated financial statements. All issuances of Holdings equity securities,

including grants of stock options and restricted stock by Holdings to employees and directors of Realogy and its subsidiaries have been reflected in Realogy s condensed consolidated financial statements. As a result, the condensed consolidated financial positions, results of operations and cash flows of Holdings, Intermediate and Realogy are the same. Total equity (deficit) for Holdings is equal to Realogy, however, the common stock and additional paid-in capital components are different by $2 million. Holdings has $2 million for the par value of common stock and $2 million less additional paid in capital as compared to Realogy. In management s opinion, the accompanying Condensed Consolidated Financial Statements reflect all normal and recurring adjustments necessary to present fairly the Realogy and Holdings financial position as of September 30, 2011 and the results of operations and cash flows for the three and nine months ended September 30, 2011 and 2010.

As the interim Condensed Consolidated Financial Statements are prepared using the same accounting principles and policies used to prepare the annual financial statements, they should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2010 included in the June 2011 Final Prospectus as well as our Annual Report on Form 10-K for the year ended December 31, 2010.

Refinancing Transactions

In January and February 2011, the Company refinanced certain of its outstanding indebtedness by (1) consummating private debt exchange offers exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), for its existing unsecured notes pursuant to which Realogy issued new unsecured notes due in 2017 and 2018 and convertible notes due in 2018 that are convertible at the holder s option into Class A Common Stock of Holdings which has a par value of $0.01 per share (Class A Common Stock) (the Debt Exchange Offering), (2) amending and extending Realogy s senior secured credit facility (the Senior Secured Credit Facility Amendment) which, among other things, extended the maturity of a significant portion of the first lien term loans and revolving commitments thereunder, and (3) issuing $700 million principal amount of 7.875% senior secured notes due in 2019 (the First and a Half Lien Notes and, together with the Debt Exchange Offering and the Senior Secured Credit Facility Amendment, the Refinancing Transactions), the net proceeds of which were used to prepay outstanding term loans under the Senior Secured Credit Facility. The Refinancing Transactions, among other things, reduced the Company s total senior secured debt for purposes of calculating the financial covenant under the Senior Secured Credit Facility, which requires that Realogy maintain a senior secured leverage ratio of total senior secured net debt to trailing 12-month Adjusted EBITDA (as defined in Note 6, Short and Long-Term Debt), that may not exceed a maximum amount on the last day of each fiscal quarter. At September 30, 2011, the maximum permitted ratio was 4.75 to 1 and Realogy was in compliance with the senior secured leverage covenant with a senior secured leverage ratio of 4.15 to 1. See Note 6, Short and Long-Term Debt for additional information related to the Refinancing Transactions.

Amended and Restated Certificate of Incorporation

On January 5, 2011, in connection with the consummation of the Debt Exchange Offering, Holdings amended and restated its certificate of incorporation. Under its amended and restated certificate of incorporation, Holdings has the authority to issue up to 4,500,000,000 shares, of which Holdings has the authority to issue 4,200,000,000 shares of Class A Common Stock, $0.01 par value (the Class A Common Stock), 250,000,000 shares of Class B Common Stock, $0.01 par value and 50,000,000 shares of Preferred Stock, $0.01 par value. Pursuant to Holdings amended and restated certificate of incorporation, the outstanding shares of common stock of Holdings were reclassified on a share-for-share basis into shares of Class B Common Stock, the voting of which is controlled by Apollo.

The Convertible Notes are convertible to shares of Class A Common Stock upon conversion. Each share of Class A Common Stock has one vote per share, and each share of Class B Common Stock has five votes per share. The Class B Common Stock will automatically convert into Class A Common Stock on a share-for-share basis once (i) Apollo converts all of the Convertible Notes it received in the Debt Exchange Offering into shares

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of Class A Common Stock or (ii) upon a Qualified Public Offering, provided that such conversion would not result in a change of control of Realogy under the Senior Secured Credit Facility or any of Realogy s other debt arrangements.

Earnings (loss) per share attributable to Holdings

Basic earnings per share is computed based upon weighted-average shares outstanding during the period. Dilutive earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares and common share equivalents that were outstanding during the period. Holdings uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards and unexercised options.

The Company was in a net loss position for the three and nine months ended September 30, 2011 and therefore the impact of stock options, restricted stock and the convertible notes were excluded from the computation of dilutive earnings (loss) per share as the inclusion of such amounts would be anti-dilutive. The number of shares of common stock issuable under the stock options, restricted stock and the convertible notes that were excluded from the computation was 17 million, 0.1 million and 2,026 million, respectively.

Impairment of Goodwill and Other Indefinite-Lived Intangibles

In connection with the FASB s Intangible Goodwill and Other guidance, the Company assesses goodwill and other indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The Company performs its required annual impairment testing in the fourth quarter of each year subsequent to completing its annual budgeting and forecasting process. The Company is currently preparing its 2012 budgets and long-term financial projections as well as evaluating the impact of industry trends on the impairment analysis. As a result, the Company is in the early stages of completing the first test of its annual impairment review and has not completed the analysis that would indicate whether or not an impairment has occurred. If the Company has an impairment upon completion of its analysis, it could have a significant impact on its results of operations for the fourth quarter of 2011 given that the Company has $2.6 billion of goodwill and $1.9 billion of indefinite-lived intangibles, although it would have no impact on the Company s cash flows or financial covenant under the Senior Secured Credit Facility.

Derivative Instruments

The Company uses foreign currency forward contracts largely to manage its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables and payables. The Company primarily manages its foreign currency exposure to the Swiss Franc, Canadian Dollar, British Pound and Euro. The Company has elected not to utilize hedge accounting for these forward contracts; therefore, any change in fair value is recorded in the Condensed Consolidated Statements of Operations. However, the fluctuations in the value of these forward contracts generally offset the impact of changes in the value of the underlying risk that they are intended to economically hedge. As of September 30, 2011, the Company had outstanding foreign currency forward contracts with a fair value of less than $1 million and a notional value of $21 million. As of December 31, 2010, the Company had outstanding foreign currency forward contracts with a fair value of less than $1 million and a notional value of $18 million.

The Company also enters into interest rate swaps to manage its exposure to changes in interest rates associated with its variable rate borrowings. The Company has two interest rate swaps with an aggregate notional value of $425 million to hedge the variability in cash flows resulting from the term loan facility. One swap, with a notional value of $225 million, expires in July 2012 and the other swap, with a notional value of $200 million, expires in December 2012. The Company is utilizing pay fixed interest swaps (in exchange for floating LIBOR rate based payments) to perform this hedging strategy. The derivatives were being accounted for as cash flow

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hedges in accordance with the FASB s derivative and hedging guidance and the unfavorable fair market value of the swaps was recorded within Accumulated Other Comprehensive Income/(Loss) (AOCI) at December 31, 2010. Following the completion of the Refinancing Transactions, the Company was not able to maintain hedge effectiveness in accordance with the accounting guidance. As a result, the interest rate swaps were de-designated as cash flow hedging instruments and the fair value of $17 million was reclassified from AOCI and recognized in interest expense in the Condensed Consolidated Statements of Operations during the first quarter of 2011.

The fair value of derivative instruments was as follows:

Liability Derivatives			
Designated as Hedging Instruments	Balance Sheet Location	September 30, 2011 Fair Value	December 31, 2010 Fair Value
Interest rate swap contracts	Other non-current liabilities	$	$ 17
Not Designated as Hedging Instruments			
Interest rate swap contracts	Other current liabilities	$ 7	$
	Other non-current liabilities	3	
		$ 10	$

The effect of derivative instruments on earnings was as follows:

Derivatives in Cash Flow Hedge Relationships	Gain or (Loss) Recognized in Other Comprehensive Income: Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain or (Loss) Reclassified from AOCI into Income: Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Interest rate swap contracts	$	$ (1)	Interest expense	$	$ (3)

Derivatives in Cash Flow Hedge Relationships	Gain or (Loss) Recognized in Other Comprehensive Income: Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain or (Loss) Reclassified from AOCI into Income: Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest rate swap contracts	$	$ 5	Interest expense	$ (17)	$ (16)

Derivative Instruments Not	Location of Gain or (Loss) Recognized	Gain or (Loss) Recognized in Income on Derivative

Designated as Hedging Instruments	in Income for Derivative Instruments	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Interest rate swap contracts	Interest expense	$ 3	$
Foreign exchange contracts	Operating expense	$ 1	$ (2)

Derivative Instruments Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income for Derivative Instruments	Gain or (Loss) Recognized in Income on Derivative	
		Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest rate swap contracts	Interest expense	$ 7	$
Foreign exchange contracts	Operating expense	$	$ (1)

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Financial Instruments

The following tables present the Company s assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level Input:	Input Definitions:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The availability of observable inputs can vary from asset to asset and is affected by a wide variety of factors, including, for example, the type of asset, whether the asset is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level III. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of financial instruments is generally determined by reference to quoted market values. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate. The fair value of interest rate swaps is determined based upon a discounted cash flow approach that incorporates counterparty and performance risk and therefore is categorized in Level III.

The following table summarizes fair value measurements by level at September 30, 2011 for assets/liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Derivatives				
Interest rate swaps (primarily included in other current liabilities)	$	$	$ 10	$ 10
Deferred compensation plan assets (included in other non-current assets)	1			1

The following table summarizes fair value measurements by level at December 31, 2010 for assets/liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Derivatives				
Interest rate swaps (primarily included in other non-current liabilities)	$	$	$ 17	$ 17
Deferred compensation plan assets (included in other non-current assets)	1			1

The following table presents changes in Level III financial liabilities measured at fair value on a recurring basis:

Fair value at December 31, 2010	$ 17
Changes reflected in interest expense	(7)
Fair value at September 30, 2011	$ 10

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The following table summarizes the carrying amount of the Company s indebtedness compared to the estimated fair value, primarily determined by quoted market values, at:

	September 30, 2011		December 31, 2010	
Debt	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Senior Secured Credit Facility:				
Non-extended revolving credit facility	$ 22	$ 22	$	$
Extended revolving credit facility	28	28		
Non-extended term loan facility	631	566	3,059	2,903
Extended term loan facility	1,822	1,494		
First and a Half Lien Notes	700	525		
Second Lien Loans	650	637	650	720
Other bank indebtedness	133	133	163	163
Existing Notes:				
10.50% Senior Notes	64	56	1,688	1,656
11.00%/11.75% Senior Toggle Notes	52	43	468	449
12.375% Senior Subordinated Notes	187	147	864	806
Extended Maturity Notes:				
11.50% Senior Notes	489	323		
12.00% Senior Notes	129	87		
13.375% Senior Subordinated Notes	10	11		
11.00% Convertible Notes	2,110	1,506		
Securitization obligations	332	332	331	331

Income Taxes

The Company s provision for income taxes in interim periods is computed by applying its estimated annual effective tax rate against the income (loss) before income taxes for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur. No Federal income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance for domestic operations. Income tax expense for the nine months ended September 30, 2011 was $12 million. This expense included $12 million for an increase in deferred tax liabilities associated with indefinite-lived intangible assets and $7 million was recognized for foreign and state income taxes for certain jurisdictions offset by a $7 million benefit due to the de-designation of the interest rate swaps.

Supplemental Cash Flow Information

The Company had non-cash transactions for the nine months ended September 30, 2011 and 2010 pursuant to the terms of the Senior Toggle Notes. The Company elected to satisfy its interest payment obligations by issuing Senior Toggle Notes of $3 million and $25 million, respectively, which resulted in a non-cash transfer between accrued interest and long term debt.

Defined Benefit Pension Plan

The net periodic pension cost for the three months ended September 30, 2011 was less than $1 million and was comprised of interest cost and amortization of amounts previously recorded as other comprehensive income of $2 million offset by a benefit of less than $2 million for the expected return on assets. The net periodic pension cost for the three months ended September 30, 2010 was less than $1 million and was comprised of interest cost and amortization of amounts previously recorded as other comprehensive income of $2 million offset by a benefit of $1 million for the expected return on assets.

The net periodic pension cost for the nine months ended September 30, 2011 was $2 million and was comprised of interest cost and amortization of amounts previously recorded as other comprehensive income of

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$7 million offset by a benefit of $5 million for the expected return on assets. The net periodic pension cost for the nine months ended September 30, 2010 was $2 million and was comprised of interest cost and amortization of amounts previously recorded as other comprehensive income of $6 million offset by a benefit of $4 million for the expected return on assets.

Recently Issued Accounting Pronouncements

In September 2011, the FASB amended the guidance on testing for goodwill impairment that allows an entity to elect to qualitatively assess whether it is necessary to perform the current two-step goodwill impairment test. If the qualitative assessment determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step test is unnecessary. If the entity elects to bypass the qualitative assessment for any reporting unit and proceed directly to Step One of the test and validate the conclusion by measuring fair value, it can resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company intends to adopt the amendments on January 1, 2012 for goodwill impairment test to be performed in 2012 and does not expect the adoption to have a significant impact on the consolidated financial statements.

In June 2011, the FASB amended the guidance on comprehensive income to allow companies an option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Companies are also required to present on the face of the financial statements reclassification adjustments between OCI and net income. The amendments do not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income, nor do they change how earnings per share is calculated and presented. In addition, companies continue to have the option to present the OCI components net of tax or one amount reported for the tax effects of all OCI items. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted. The Company does not expect the adoption to have a significant impact on the consolidated financial statements.

In May 2011, the FASB amended the guidance on Fair Value Measurement that result in common measurement of fair value and disclosure requirements between U.S. GAAP and the International Financial Reporting Standards (IFRS). The amendments mainly change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments are effective prospectively for interim and annual periods beginning after December 15, 2011. The Company intends to adopt the amendments on January 1, 2012 and does not expect the adoption to have a significant impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In October 2009, the FASB issued an amendment to the accounting and disclosure for revenue recognition. The amendment modifies the criteria for recognizing revenue in multiple element arrangements. Under the guidance, in the absence of vendor-specific objective evidence (VSOE) or other third party evidence (TPE) of the selling price for the deliverables in a multiple-element arrangement, this amendment requires companies to use the best estimated selling price (BESP) for the individual deliverables. Companies shall apply the relative-selling price model for allocating an arrangement s total consideration to its individual deliverables. Under this model, the BESP is used for both the delivered and undelivered elements that do not have VSOE or TPE of the selling price. The guidance is effective for the fiscal year beginning on or after June 15, 2010, and will be applied prospectively to revenue arrangements entered into or materially modified after the effective date. The Company adopted the new guidance beginning January 1, 2011 and determined that the guidance did not have a significant impact on the consolidated financial statements.

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In January 2010, the FASB expanded the disclosure requirements for fair value measurements relating to the transfers in and out of Level II measurements and amended the disclosures for the Level III activity reconciliation to be presented on a gross basis. In addition, valuation techniques and inputs should be disclosed for both Levels II and III recurring and nonrecurring measurements. The new requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the Level III activity reconciliation which are effective for fiscal years beginning after December 15, 2010. The Company adopted the new disclosure requirements on January 1, 2010 except for the disclosure related to the Level III reconciliation, which was adopted on January 1, 2011. The adoption did not have a significant impact on the consolidated financial statements.

In December 2010, the FASB issued guidance to clarify when to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. In certain situations, a reporting unit may have a negative carrying amount, particularly for companies that only have a single reporting unit and have significant debt. In that case, since the first step is passed, the negative carrying amount may shield a potential impairment. The guidance requires that reporting units with a zero or negative carrying value should proceed to step two of the impairment test if there are qualitative factors indicating that it is more likely than not that a goodwill impairment exists. This guidance is effective for all interim and annual reporting periods beginning after December 15, 2010. The Company adopted the guidance beginning January 1, 2011 and determined that the adoption did not have a significant impact on the consolidated financial statements.

In December 2010, the FASB issued guidance to clarify the disclosure of supplementary pro forma information for business combinations. Previous guidance on Business Combinations requires disclosure of revenue and earnings of the combined entity as if the acquisition had occurred as of the beginning of both the current period and the comparable prior year reporting period. However, presenting pro forma results as if the acquisition occurred at the beginning of each annual period inappropriately results in certain adjustments, such as amortization expense of intangible assets with useful lives of less than two years, being included in the pro forma results of both reporting periods. The new guidance therefore requires pro forma information to be prepared as if the acquisition occurred as of the beginning of the comparable prior period and is applied prospectively for acquisitions consummated after the beginning of the fiscal year beginning on or after December 15, 2010. The Company adopted the guidance beginning January 1, 2011 and determined that the adoption did not have a significant impact on the consolidated financial statements.

2. COMPREHENSIVE LOSS

Comprehensive loss consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net loss	$ (27)	$ (33)	$ (285)	$ (7)
Foreign currency translation adjustments	(3)	2	(1)	1
Change in fair value of interest rate hedges, net				3
Change in unrecognized liability included in pension obligations	1		1	
Reclassification of interest rate hedges to interest expense, net[1]			10	
Comprehensive loss	(29)	(31)	(275)	(3)
Less: Comprehensive income attributable to noncontrolling interests	(1)		(2)	(1)
Total comprehensive loss attributable to Holdings and Realogy	$ (30)	$ (31)	$ (277)	$ (4)

(1) The interest rate swaps were being accounted for as cash flow hedges in accordance with the FASB s derivative and hedging guidance and the unfavorable fair market value of the swaps was recorded within AOCI at December 31, 2010. However, following the completion of the Refinancing Transactions in early

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2011, the Company was not able to maintain hedge effectiveness. As a result, the interest rate swaps were de-designated and $10 million ($17 million excluding the tax impact of $7 million) was reclassified and recognized in interest expense in the Condensed Consolidated Statements of Operations. See Note 1, Basis of Presentation for additional information.

3. ACQUISITIONS

Assets acquired and liabilities assumed in business combinations were recorded in the Company s Condensed Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Company s Condensed Consolidated Statements of Operations since their respective dates of acquisition.

2011 Acquisitions

During the nine months ended September 30, 2011, the Company acquired eleven real estate brokerage operations through its wholly-owned subsidiary, NRT, for total consideration of $3 million. These acquisitions resulted in goodwill of $2 million that was assigned to the Company Owned Brokerage Services segment.

None of the 2011 acquisitions were significant to the Company s results of operations, financial position or cash flows individually or in the aggregate.

2010 Acquisitions

On January 21, 2010, the Company completed the stock acquisition of Primacy Relocation, LLC (Primacy) for the assumption of approximately $26 million of indebtedness (excluding $9 million of indebtedness related to the sale of relocation receivables). Primacy was a relocation and global assignment management services company headquartered in the U.S. with international locations in Europe and Asia. The acquisition of Primacy increased goodwill by $16 million, customer relationships intangibles by $62 million and other intangibles by $5 million. Effective January 1, 2011, the Primacy business operates under the Cartus name.

4. INTANGIBLE ASSETS

Goodwill by segment and changes in the carrying amount are as follows:

	Real Estate Franchise Services	Company Owned Brokerage Services	Relocation Services	Title and Settlement Services	Total Company
Gross goodwill as of December 31, 2010	$ 2,265	$ 780	$ 641	$ 397	$ 4,083
Accumulated impairment losses	(709)	(158)	(281)	(324)	(1,472)
Balance at December 31, 2010	1,556	622	360	73	2,611
Goodwill acquired		2			2
Balance at September 30, 2011	$ 1,556	$ 624	$ 360	$ 73	$ 2,613

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Intangible assets are as follows:

	As of September 30, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Franchise Agreements						
Amortizable Franchise agreements[a]	$ 2,019	$ 306	$ 1,713	$ 2,019	$ 255	$ 1,764
Unamortizable Franchise agreement[b]	1,145		1,145	1,145		1,145
Total Franchise Agreements	$ 3,164	$ 306	$ 2,858	$ 3,164	$ 255	$ 2,909
Unamortizable Trademarks[c]	$ 732	$	$ 732	$ 732	$	$ 732
Other Intangibles						
Amortizable License agreements[d]	$ 45	$ 4	$ 41	$ 45	$ 3	$ 42
Amortizable Customer relationships[e]	529	135	394	529	107	422
Amortizable Pendings and listings[f]				2	1	1
Unamortizable Title plant shares[g]	10		10	10		10
Amortizable Other[h]	17	12	5	12	9	3
Total Other Intangibles	$ 601	$ 151	$ 450	$ 598	$ 120	$ 478

(a) Generally amortized over a period of 30 years.

(b) Relates to the Real Estate Franchise Services franchise agreement with NRT, which is expected to generate future cash flows for an indefinite period of time.

(c) Relates to the Century 21, Coldwell Banker, ERA, The Corcoran Group, Coldwell Banker Commercial and Cartus tradenames, which are expected to generate future cash flows for an indefinite period of time.

(d) Relates to the Sotheby s International Realty and Better Homes and Gardens Real Estate agreements which are being amortized over 50 years (the contractual term of the license agreements).

(e) Relates to the customer relationships at the Title and Settlement Services segment and the Relocation Services segment. These relationships are being amortized over a period of 5 to 20 years.

(f) Amortized over the estimated closing period of the underlying contracts (in most cases five months).

(g) Primarily related to the Texas American Title Company title plant shares. Ownership in a title plant is required to transact title insurance in certain states. The Company expects to generate future cash flows for an indefinite period of time.

(h) Generally amortized over periods ranging from 2 to 10 years.

Intangible asset amortization expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Franchise agreements	$ 17	$ 17	$ 51	$ 51
Customer relationships	9	9	28	28
Other	2	1	5	3