REALOGY HOLDINGS CORP.
Form 10-Q
November 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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 No. 001-35674
REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)
Commission File No. 333-148153
REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)
Delaware
(State or other jurisdiction of incorporation or organization)
175 Park Avenue
Madison, NJ 07940
(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 registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes ¨ No þ
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 Registrants were required to submit and post such files).
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes þ 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	Accelerated filer	Non-accelerated filer	Smaller reporting

	filer			company
			(Do not check if a smaller reporting company)	
Realogy Holdings Corp.	þ	¨	¨	¨
Realogy Group LLC	¨	¨	þ	¨

Indicate by check mark whether the Registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).
Realogy Holdings Corp. Yes ¨ No þ Realogy Group LLC Yes ¨ No þ
There were 146,705,506 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of November 3, 2015.

Table of Contents

TABLE OF CONTENTS

		Page
Introductory Note		1
Forward-Looking Statements		1
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	4
	Report of Independent Registered Public Accounting Firm for Realogy Holdings Corp.	4
	Report of Independent Registered Public Accounting Firm for Realogy Group LLC	5
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014	6
	Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014	7
	Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	8
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014	9
	Notes to Condensed Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risks	48
Item 4.	Controls and Procedures	49
PART II	OTHER INFORMATION	50
Item 1.	Legal Proceedings	50
Item 6.	Exhibits	51
Signatures		52
Exhibit Index		53

Table of Contents

INTRODUCTORY NOTE

Except as otherwise indicated or unless the context otherwise requires, the terms "we," "us," "our," "our company," "Realogy," "Realogy Holdings" and the "Company" refer to Realogy Holdings Corp., a Delaware corporation, and its consolidated subsidiaries, including Realogy Intermediate Holdings LLC, a Delaware limited liability company ("Realogy Intermediate"), and Realogy Group LLC, a Delaware limited liability company ("Realogy Group"). Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

Realogy Holdings is not a party to the Senior Secured Credit Facility and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the Senior Secured Credit Facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its secured and unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this report and our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions and 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. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry 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," "estimates," "plans," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature 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:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:

a lack of improvement or a decline in the number of homesales, stagnant or declining home prices 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 decrease in consumer confidence;

the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system and high levels of unemployment in the U.S. and abroad, which may impact all or some portion of the housing markets in which we and our franchisees operate;

increasing mortgage rates and/or constraints on the availability of mortgage financing;

legislative, tax or regulatory changes that would adversely impact the residential real estate market, including potential reforms of Fannie Mae and Freddie Mac, and potential tax code reform, which could reduce or eliminate the amount that taxpayers would be allowed to deduct for home mortgage interest;

delayed homesale transaction closings that impact us or other industry participants resulting from the introduction of the Consumer Financial Protection Bureau's new rule relating to integrated mortgage disclosure forms, effective for new loan applications beginning October 3, 2015;

a decrease in housing affordability;

high levels of foreclosure activity;

insufficient or excessive home inventory levels by market;

changing attitudes towards home ownership, particularly among potential first-time homebuyers who may delay, or decide not to, purchase a home; and

the inability or unwillingness of current homeowners to purchase their next home due to various factors, including limited or negative equity in their current home, difficult mortgage underwriting standards, attractive rates on existing mortgages and the lack of available inventory in their market;

- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations;
- our inability to enter into franchise agreements with new franchisees at current royalty rates, or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements at current royalty rates, or to maintain or enhance our value proposition to franchisees, including but not limited to our ability to successfully develop, license and scale our ZAP™ technology to our franchisees;
- the lack of revenue growth or declining profitability of our franchisees;
- disputes or issues with entities that license us their tradenames for use in our business that could impede our franchising of those brands;
- our inability to realize the benefits from acquisitions due to the loss of key personnel of the acquired companies, as well as the possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees, controversies with our franchisees or actions against us by third parties with which our franchisees have business relationships;
- competition whether through traditional competitors, competitors with alternative business models, as well as competition for our independent sales associates;
- loss or attrition among our senior executives or other key employees could adversely affect our financial performance;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes in laws and regulations or stricter interpretations of regulatory requirements, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales associates to employee status; and (2) the Real Estate Settlement Procedures Act ("RESPA") or state consumer protection or similar laws;
- any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards as well as any adverse impact of decisions to voluntary modify business arrangements or enter into settlement agreements to avoid the risk of protracted and costly litigation or other proceedings;
- the general impact of emerging technologies on our business;
- our inability to obtain new technologies and systems, to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems;
- the failure or significant disruption of our operations from various causes related to our critical information technologies and systems including cybersecurity threats to our data and customer/franchisee data as well as reputational or financial risks associated with a loss of any such data;
- risks related to our international operations, including compliance with the Foreign Corrupt Practices Act and similar anti-corruption laws as well as risks relating to the master franchisor model that we deploy internationally;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt;
- risks relating to our ability to refinance our indebtedness or incur additional debt;
- changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits or the loss of a significant Affinity client;
- an increase in the claims rate of our title underwriter and an increase in mortgage rates could adversely impact the revenue of our title and settlement services segment;
- our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;
- risks that could materially adversely impact our equity investment in PHH Home Loans LLC, our joint venture with PHH Corporation ("PHH");

2

Table of Contents

- any remaining resolutions or outcomes with respect to contingent liabilities of our former parent, Cendant Corporation ("Cendant"), under the Separation and Distribution Agreement and the Tax Sharing Agreement (each as defined in our Annual Report on Form 10-K for the year ended December 31, 2014), including any adverse impact on our future cash flows; 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," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"), 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.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Holdings Corp. and its subsidiaries as of September 30, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2015 and September 30, 2014 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and September 30, 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our review 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 review, 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, 2014, and the related consolidated statements of operations, comprehensive income (loss), equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 26, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2014, 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 5, 2015

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Realogy Group LLC:

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Group LLC and its subsidiaries as of September 30, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2015 and September 30, 2014 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and September 30, 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our review 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 review, 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, 2014, and the related consolidated statements of operations, comprehensive income (loss), equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 26, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2014, 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 5, 2015

Table of Contents

REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Gross commission income	$1,251	$1,162	$3,310	$3,070
Service revenue	265	231	664	607
Franchise fees	103	96	269	251
Other	49	42	138	122
Net revenues	1,668	1,531	4,381	4,050
Expenses				
Commission and other agent-related costs	855	795	2,262	2,099
Operating	381	340	1,089	1,016
Marketing	56	52	171	155
General and administrative	85	79	255	214
Former parent legacy benefit, net	(14)	(2)	(15)	(1)
Restructuring costs, net	—	(1)	—	(1)
Depreciation and amortization	55	48	153	140
Interest expense, net	70	54	188	197
Loss on the early extinguishment of debt	—	—	—	27
Other (income)/expense, net	(2)	(1)	(3)	(2)
Total expenses	1,486	1,364	4,100	3,844
Income before income taxes, equity in earnings and noncontrolling interests	182	167	281	206
Income tax expense	74	71	116	88
Equity in earnings of unconsolidated entities	(4)	(6)	(13)	(7)
Net income	112	102	178	125
Less: Net income attributable to noncontrolling interests	(2)	(2)	(3)	(3)
Net income attributable to Realogy Holdings and Realogy Group	$110	$100	$175	$122
Earnings per share attributable to Realogy Holdings:				
Basic earnings per share	$0.75	$0.68	$1.19	$0.84
Diluted earnings per share	$0.74	$0.68	$1.18	$0.83
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic	146.6	146.0	146.5	145.9
Diluted	148.1	147.0	148.0	147.0

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 112	$ 102	$ 178	$ 125
Currency translation adjustment	(3)	(3)	(3)	(1)
Defined benefit pension plan - amortization of actuarial loss to periodic pension cost	1	—	1	—
Other comprehensive loss, before tax	(2)	(3)	(2)	(1)
Income tax expense related to items of other comprehensive income amounts	1	—	1	—
Other comprehensive loss, net of tax	(3)	(3)	(3)	(1)
Comprehensive income	109	99	175	124
Less: comprehensive income attributable to noncontrolling interests	(2)	(2)	(3)	(3)
Comprehensive income attributable to Realogy Holdings and Realogy Group	$ 107	$ 97	$ 172	$ 121

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 567	$ 313
Trade receivables (net of allowance for doubtful accounts of $20 and $27)	171	116
Relocation receivables	351	297
Deferred income taxes	208	180
Other current assets	134	120
Total current assets	1,431	1,026
Property and equipment, net	240	233
Goodwill	3,603	3,477
Trademarks	745	736
Franchise agreements, net	1,445	1,495
Other intangibles, net	322	341
Other non-current assets	243	230
Total assets	$ 8,029	$ 7,538
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 147	$ 128
Securitization obligations	335	269
Due to former parent	32	51
Current portion of long-term debt	519	19
Accrued expenses and other current liabilities	460	411
Total current liabilities	1,493	878
Long-term debt	3,378	3,891
Deferred income taxes	479	350
Other non-current liabilities	286	236
Total liabilities	5,636	5,355
Commitments and contingencies (Notes 7 and 9)		
Equity:		
Realogy Holdings preferred stock: $.01 par value; 50,000,000 shares authorized, none issued and outstanding at September 30, 2015 and December 31, 2014	—	—
Realogy Holdings common stock: $.01 par value; 400,000,000 shares authorized 146,723,561 shares outstanding at September 30, 2015 and 146,382,923 shares outstanding at December 31, 2014	1	1
Additional paid-in capital	5,715	5,677
Accumulated deficit	(3,289)	(3,464)
Accumulated other comprehensive loss	(38)	(35)
Total stockholders' equity	2,389	2,179
Noncontrolling interests	4	4
Total equity	2,393	2,183
Total liabilities and equity	$ 8,029	$ 7,538

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Operating Activities		
Net income	$ 178	$ 125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	153	140
Deferred income taxes	100	78
Amortization of deferred financing costs and discount	13	13
Non-cash portion of the loss on the early extinguishment of debt	—	21
Equity in earnings of unconsolidated entities	(13)	(7)
Stock-based compensation	40	32
Mark-to-market adjustments on derivatives	26	17
Other adjustments to net income	(3)	1
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(56)	(53)
Relocation receivables	(54)	(86)
Other assets	(24)	(1)
Accounts payable, accrued expenses and other liabilities	52	(4)
Due to former parent	(19)	(3)
Dividends received from unconsolidated entities	7	1
Taxes paid related to net share settlement for stock-based compensation	(5)	(4)
Other, net	—	1
Net cash provided by operating activities	395	271
Investing Activities		
Property and equipment additions	(60)	(49)
Payments for acquisitions, net of cash acquired	(111)	(203)
Change in restricted cash	1	—
Other, net	(1)	(1)
Net cash used in investing activities	(171)	(253)
Financing Activities		
Repayments of term loan facility	(14)	(14)
Repurchases of First and a Half Lien Notes	—	(397)
Proceeds from issuance of Senior Notes	—	450
Net change in securitization obligations	67	29
Debt transaction costs	(1)	(41)
Proceeds from exercise of stock options	3	2
Other, net	(23)	(14)
Net cash provided by financing activities	32	15
Effect of changes in exchange rates on cash and cash equivalents	(2)	(1)
Net increase in cash and cash equivalents	254	32
Cash and cash equivalents, beginning of period	313	236
Cash and cash equivalents, end of period	$ 567	$ 268
Supplemental Disclosure of Cash Flow Information		
Interest payments (including securitization interest of $4 for both periods presented)	$ 165	$ 197

Income tax payments, net	10	7

See Notes to Condensed Consolidated Financial Statements.

REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are in millions)
(Unaudited)

1. BASIS OF PRESENTATION

Realogy Holdings Corp. ("Realogy Holdings", "Realogy" or the "Company") is a holding company for its consolidated subsidiaries including Realogy Intermediate Holdings LLC ("Realogy Intermediate") and Realogy Group LLC ("Realogy Group") and its consolidated subsidiaries. Realogy through its subsidiaries is a global provider of residential real estate services. Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations, comprehensive income and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

The accompanying Condensed Consolidated Financial Statements include the financial statements of Realogy Holdings and Realogy Group. Realogy Holdings' only asset is its investment in the common stock of Realogy Intermediate, and Realogy Intermediate's only asset is its investment in Realogy Group. Realogy Holdings' only obligations are its guarantees of certain borrowings and certain franchise obligations of Realogy Group. All expenses incurred by Realogy Holdings and Realogy Intermediate are for the benefit of Realogy Group and have been reflected in Realogy Group's Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial 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.

In management's opinion, the accompanying Condensed Consolidated Financial Statements reflect all normal and recurring adjustments necessary to present fairly Realogy Holdings and Realogy Group's financial position as of September 30, 2015 and the results of operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014 and cash flows for the nine months ended September 30, 2015 and 2014. As the interim Condensed Consolidated Financial Statements are prepared using the same accounting principles and policies used to prepare the annual consolidated financial statements, they should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2014 included in the Annual Report on Form 10-K for the year ended December 31, 2014.

The Condensed Consolidated Financial Statements as of September 30, 2015 and for the three and nine month periods ended September 30, 2015 and 2014 have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their reports, dated November 5, 2015, are included on pages 4 and 5. The reports of PricewaterhouseCoopers LLP state that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

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.

Table of Contents

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.

The following table summarizes fair value measurements by level at September 30, 2015 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Interest rate swaps (included in other non-current liabilities)	$—	$59	$—	$59
Deferred compensation plan assets (included in other non-current assets)	2	—	—	2

The following table summarizes fair value measurements by level at December 31, 2014 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Interest rate swaps (included in other non-current liabilities)	$—	$40	$—	$40
Deferred compensation plan assets (included in other non-current assets)	2	—	—	2

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, 2015		December 31, 2014	
Debt	Carrying Amount	Estimated Fair Value (a)	Carrying Amount	Estimated Fair Value (a)
Senior Secured Credit Facility:				
Revolving Credit Facility	$—	$—	$—	$—
Term Loan B Facility	1,858	1,854	1,871	1,834
7.625% First Lien Notes	593	622	593	633
9.00% First and a Half Lien Notes	196	207	196	215
3.375% Senior Notes	500	498	500	500
4.50% Senior Notes	450	447	450	449
5.25% Senior Notes	300	305	300	291

Securitization obligations	335	335	269	269

(a) The fair value of the Company's indebtedness is categorized as Level I.

Table of Contents

Investment in PHH Home Loans

The Company owns 49.9% of PHH Home Loans, which was created for the purpose of originating and selling mortgage loans primarily sourced through the Company's real estate brokerage and relocation businesses. PHH Corporation ("PHH") owns the remaining percentage. In connection with the joint venture, the Company recorded equity earnings related to its investment in PHH Home Loans of $3 million and $11 million for the three and nine months ended September 30, 2015, respectively, and equity earnings related to its investment in PHH Home Loans of $4 million and $5 million for the three and nine months ended September 30, 2014, respectively. The Company received $5 million in cash dividends from PHH Home Loans during the nine months ended September 30, 2015 compared to no cash dividends during the same period in 2014. The Company's investment in PHH Home Loans is $60 million at September 30, 2015 and $54 million at December 31, 2014.

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 before income taxes for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur. The provision for income taxes was an expense of $74 million and $71 million for the three months ended September 30, 2015 and September 30, 2014, respectively, and $116 million and $88 million for the nine months ended September 30, 2015 and September 30, 2014, respectively.

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 Euro, Swiss Franc, Canadian Dollar and British Pound. 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, 2015, the Company had outstanding foreign currency forward contracts with a fair value of less than $1 million and a notional value of $31 million. As of December 31, 2014, the Company had outstanding foreign currency forward contracts with a fair value of less than $1 million and a notional value of $27 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 five interest rate swaps with an aggregate notional value of $1,025 million to offset the variability in cash flows resulting from the term loan facility. The first swap, with a notional value of $225 million, commenced in July 2012 and expires in February 2018 and the second swap, with a notional value of $200 million, commenced in January 2013 and expires in February 2018. In the third quarter of 2013, the Company entered into three additional interest rate swaps, each with a notional value of $200 million, which commenced in August 2015 and expire in August 2020. The Company has not elected to utilize hedge accounting for these interest rate swaps; therefore, any change in fair value is recorded in the Condensed Consolidated Statements of Operations.

The fair value of derivative instruments was as follows:

Liability Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value September 30, 2015	Fair Value December 31, 2014
Interest rate swap contracts	Other non-current liabilities	$59	$40

The effect of derivative instruments on earnings was as follows:

Derivative Instruments Not Designated as Hedging Instruments	Location of (Gain) or Loss Recognized for Derivative Instruments	(Gain) or Loss Recognized on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2015	2014	2015	2014
Interest rate swap contracts	Interest expense	$16	$(3)	$27	$19
Foreign exchange contracts	Operating expense	—	(2)	(1)	(2)

Table of Contents

Restricted Cash

Restricted cash primarily relates to amounts specifically designated as collateral for the repayment of outstanding borrowings under the Company's securitization facilities. Such amounts approximated $9 million and $10 million at September 30, 2015 and December 31, 2014, respectively, and are included within other current assets on the Company's Condensed Consolidated Balance Sheets.

Supplemental Cash Flow Information

Significant non-cash transactions during the nine months ended September 30, 2015 and September 30, 2014 included $13 million and $6 million, respectively, in capital lease additions, which resulted in non-cash additions to property and equipment, net and other non-current liabilities.

Defined Benefit Pension Plan

The net periodic pension cost for the three months ended September 30, 2015 was less than $1 million and was comprised of interest cost and amortization of actuarial loss of $2 million mostly offset by a benefit of $2 million for the expected return on assets. The net periodic pension benefit for the three months ended September 30, 2014 was less than $1 million and was comprised of a benefit of $2 million for the expected return on assets mostly offset by interest cost and amortization of actuarial loss of $2 million.

The net periodic pension cost for the nine months ended September 30, 2015 was less than $1 million and was comprised of interest cost and amortization of actuarial loss of $6 million mostly offset by a benefit of $6 million for the expected return on assets. The net periodic pension benefit for the nine months ended September 30, 2014 was less than $1 million and was comprised of a benefit of $6 million for the expected return on assets mostly offset by interest cost and amortization of actuarial loss of $6 million.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU"). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In April 2015, the Financial Accounting Standards Board (the "FASB") issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are recognized as deferred charges and recorded as other assets. The amendments in this ASU will be effective for the Company's fiscal year beginning January 1, 2016 and subsequent interim periods, with earlier adoption permitted. Upon adoption, the Company must apply the new guidance retrospectively to all prior periods presented in the financial statements. The Company had debt issuance costs of $45 million and $55 million as of September 30, 2015 and December 31, 2014, respectively, included in other assets. The Company plans to early adopt this ASU for the year ended December 31, 2015 and will apply its provisions retrospectively. Adoption of the ASU will result in the reclassification of debt issuance costs from deferred financing costs in other assets to a reduction in the carrying amount of the related debt liability within the Company's consolidated balance sheets. The debt issuance costs related to our revolving credit facilities, including securitization obligations, of $4 million and $5 million as of September 30, 2015 and December 31, 2014, respectively, will remain classified as a deferred asset within other assets as is permitted by the ASU.

In May 2014, the FASB and IASB issued a converged standard on revenue recognition that will have an effect on most companies to some extent. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. The new standard, as initially released, would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and early adoption would not be permitted. In July 2015, the FASB deferred the effective date of the new revenue standard by one year resulting in the new revenue standard being effective for fiscal years and interim periods beginning after December 15, 2017 and allowing entities to adopt one year earlier if they so elect. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

13

Table of Contents

2. ACQUISITIONS

2015 Acquisitions

During the nine months ended September 30, 2015, the Company acquired seven real estate brokerage related operations through its wholly owned subsidiary, NRT, including a large franchisee of the Real Estate Franchise segment, for aggregate cash consideration of $80 million and established $10 million of liabilities related to contingent consideration and other acquisition related liabilities. These acquisitions resulted in goodwill of $79 million, pendings and listings of $7 million, other intangibles of $1 million, other assets of $6 million and other liabilities of $3 million.

During the nine months ended September 30, 2015, the Company acquired two title and settlement operations through its wholly owned subsidiary, TRG, for cash consideration of $33 million and established $37 million of liabilities related to contingent consideration. These acquisitions resulted in goodwill of $47 million, trademarks of $9 million, pendings and listings of $7 million, other intangibles of $5 million, title plant shares of $1 million and other assets of $1 million.

None of the 2015 acquisitions were significant to the Company’s results of operations, financial position or cash flows individually or in the aggregate.

2014 Acquisitions

In August 2014, the Company acquired all of the outstanding shares of common stock of ZipRealty, Inc., (“ZipRealty”) for a cash purchase price of $167 million. The Company acquired ZipRealty's residential brokerage operations with 23 offices across the United States and its integrated real estate technology platform. The estimated fair values of the assets acquired and liabilities assumed resulted in goodwill of $92 million, software and fixed assets of $18 million, deferred tax assets of $46 million, customer relationships intangibles of $1 million, pendings and listings of $3 million, other intangibles of $7 million, other assets of $6 million and other liabilities of $6 million.

During the year ended December 31, 2014, in addition to the ZipRealty acquisition discussed above, NRT acquired sixteen real estate brokerage and property management operations, for cash consideration of $44 million and established $19 million of liabilities related to contingent consideration. These acquisitions resulted in goodwill of $45 million, trademarks of $4 million, pendings and listings of $4 million, other intangibles of $8 million, other assets of $3 million and other liabilities of $1 million.

During the year ended December 31, 2014, the Company acquired three title and settlement operations through its wholly owned subsidiary, TRG, for cash consideration of $6 million. These acquisitions resulted in goodwill of $5 million and pendings and listings of $1 million.

None of the 2014 acquisitions were significant to the Company’s results of operations, financial position or cash flows individually or in the aggregate.

3. 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, 2014	$ 3,315	$ 905	$ 641	$ 402	$ 5,263
Accumulated impairment losses	(1,023)	(158)	(281)	(324)	(1,786)
Balance at December 31, 2014	2,292	747	360	78	3,477
Goodwill acquired	—	79	—	47	126
Balance at September 30, 2015	$ 2,292	$ 826	$ 360	$ 125	$ 3,603

Table of Contents

Intangible assets are as follows:

	As of September 30, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable—Franchise agreements (a)	$2,019	$ 574	$1,445	$2,019	$ 524	$1,495
Unamortizable—Trademarks (b)	$745		$745	$736		$736
Other Intangibles						
Amortizable—License agreements (c)	$45	$ 8	$37	$45	$ 7	$38
Amortizable—Customer relationships (d)	530	277	253	530	256	274
Unamortizable—Title plant shares (e)	11		11	10		10
Amortizable—Pendings and listings (f)	8	8	—	2	2	—
Amortizable—Other (g)	31	10	21	25	6	19
Total Other Intangibles	$625	$ 303	$322	$612	$ 271	$341

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

(b) Primarily 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.

(c) 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).

(d) Relates to the customer relationships at the Relocation Services segment, the Title and Settlement Services segment and the Real Estate Franchise Services segment. These relationships are being amortized over a period of 2 to 20 years.

(e) Primarily relates 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.

(f) Generally amortized over a period of 5 months.

(g) Consists of covenants not to compete which are amortized over their contract lives and other intangibles which are generally amortized over periods ranging from 5 to 10 years.

Intangible asset amortization expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Franchise agreements	$17	$17	$50	$50
License agreements	—	—	1	1
Customer relationships	7	9	21	28
Pendings and listings	8	3	14	6
Other	1	—	4	1
Total	$33	$29	$90	$86

Based on the Company's amortizable intangible assets as of September 30, 2015, the Company expects related amortization expense for the remainder of 2015, the four succeeding years and thereafter to be approximately $26 million, $99 million, $95 million, $94 million, $93 million and $1,349 million, respectively.

Table of Contents

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of:

	September 30, 2015	December 31, 2014
Accrued payroll and related employee costs	$125	$120
Accrued volume incentives	32	32
Accrued commissions	41	21
Deferred income	66	73
Accrued interest	39	44
Contingent consideration for acquisitions	26	10
Other	131	111
	$460	$411

5. SHORT AND LONG-TERM DEBT

Total indebtedness is as follows:

	September 30, 2015	December 31, 2014
Senior Secured Credit Facility:		
Revolving Credit Facility	$—	$—
Term Loan B Facility	1,858	1,871
7.625% First Lien Notes	593	593
9.00% First and a Half Lien Notes	196	196
3.375% Senior Notes	500	500
4.50% Senior Notes	450	450
5.25% Senior Notes	300	300
Total Short & Long-Term Debt	$3,897	$3,910
Securitization Obligations:		
Apple Ridge Funding LLC	$325	$255
Cartus Financing Limited	10	14
Total Securitization Obligations	$335	$269

Indebtedness Table

As of September 30, 2015, the total capacity, outstanding borrowings and available capacity under the Company's borrowing arrangements were as follows:

	Interest Rate	Expiration Date	Total Capacity	Outstanding Borrowings	Available Capacity
Senior Secured Credit Facility:					
Revolving Credit Facility (1)	(2)	March 2018	$475	$—	$475
Term Loan B Facility	(3)	March 2020	1,872	1,858	—
First Lien Notes (1)	7.625%	January 2020	593	593	—
First and a Half Lien Notes	9.00%	January 2020	196	196	—
Senior Notes	3.375%	May 2016	500	500	—
Senior Notes	4.50%	April 2019	450	450	—
Senior Notes	5.25%	December 2021	300	300	—
Securitization obligations: (4)					
Apple Ridge Funding LLC (5)		June 2016	375	325	50
Cartus Financing Limited (6)		August 2016	38	10	28
Total (7)			$4,799	$4,232	$553

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(1) See Note 11, "Subsequent Events" for a description of the October 2015 amendment of the Senior Secured Revolving Credit Facility and entry into a new Senior Secured Term Loan A Facility. The net proceeds of the Term Loan A Facility together with revolver borrowings were used to discharge the First Lien Notes in October 2015. As of November 3, 2015, after giving effect to

Table of Contents

the amendment of the facility, the Company had no outstanding borrowings on the Revolving Credit Facility, leaving $815 million of available capacity.

(2) Interest rates with respect to revolving loans under the Senior Secured Credit Facility at September 30, 2015 were based on, at Realogy Group's option, (a) adjusted LIBOR plus 2.75% or (b) JPMorgan Chase Bank, N.A.'s prime rate ("ABR") plus 1.75%.

(3) Consists of a $1,872 million Term Loan B, less a discount of $14 million. There is 1% per annum amortization of principal. The interest rate with respect to the Term Loan B Facility is based on, at Realogy Group's option, (a) adjusted LIBOR plus 3.00% (with a LIBOR floor of 0.75%) or (b) JPMorgan Chase Bank, N.A.'s prime rate ("ABR") plus 2.00% (with an ABR floor of 1.75%).

(4) Available capacity is subject to maintaining sufficient relocation related assets to collateralize these securitization obligations.

(5) In June 2015, Realogy Group amended the existing Apple Ridge Funding LLC securitization program utilized by Cartus. The capacity under the facility was temporarily increased from $325 million to $375 million from June 2015 until October 2015, at which time the capacity was reduced to $325 million.

(6) Consists of a £20 million revolving loan facility and a £5 million working capital facility.

(7) Not included in this table, the Company had $135 million of outstanding letters of credit at September 30, 2015, of which $53 million was under the synthetic letter of credit facility with a rate of 4.25% and $82 million was under the unsecured letter of credit facility with a rate of 2.98%.

Maturities Table

As of September 30, 2015, the combined aggregate amount of maturities for long-term borrowings, excluding securitizations, for the remainder of 2015 and each of the next four years is as follows:

Year	Amount
Remaining 2015	$5
2016	519
2017	19
2018	19
2019	469

Senior Secured Credit Facility

The senior secured credit agreement, as amended and in effect as of September 30, 2015 (the "Amended and Restated Credit Agreement") provides for:

(a) a Term Loan B Facility initially issued in the aggregate principal amount of $1,905 million with a maturity date of March 5, 2020. The Term Loan B Facility has quarterly amortization payments totaling 1% per annum of the $1,905 million of Term Loan B principal. The interest rate with respect to the Term Loan B Facility is based on, at Realogy Group's option, adjusted LIBOR plus 3.00% (with a LIBOR floor of 0.75%) or ABR plus 2.00% (with an ABR floor of 1.75%); and

(b) a $475 million Revolving Credit Facility with a maturity date of March 5, 2018, which includes (i) a $250 million letter of credit subfacility and (ii) a swingline loan subfacility. The interest rate with respect to revolving loans under the Revolving Credit Facility is based on, at Realogy Group's option, adjusted LIBOR plus 2.75% or ABR plus 1.75%.

The Amended and Restated Credit Agreement provides for a synthetic letter of credit facility which matures on October 10, 2016. The synthetic letter of credit facility may be utilized for general corporate purposes, including the support of Realogy Group's obligations with respect to Cendant contingent and other liabilities assumed under the Separation and Distribution Agreement. The capacity of the synthetic letter of credit facility is reduced by 1% per annum. As of September 30, 2015, the capacity under the synthetic letter of credit facility was $54 million and the facility was being utilized for a $53 million letter of credit with Cendant for potential contingent obligations.

The Amended and Restated Credit Agreement permits the Company to obtain up to $500 million of additional credit facilities from lenders reasonably satisfactory to the administrative agent and us, without the consent of the existing lenders under the new senior secured credit facility, plus an unlimited amount if Realogy Group's senior secured leverage ratio is less than 3.50 to 1.00 on a pro forma basis. Subject to certain restrictions, the Amended and Restated

Credit Agreement also permits us to issue senior secured or unsecured notes in lieu of any incremental facility.

The obligations under the Amended and Restated Credit Agreement are secured to the extent legally permissible by substantially all of the assets of Realogy Group, Realogy Intermediate and all of their domestic subsidiaries, other than certain excluded subsidiaries.

Realogy Group’s Amended and Restated Credit Agreement contains financial, affirmative and negative covenants and requires Realogy Group to maintain a senior secured leverage ratio, not to exceed 4.75 to 1.00, and pursuant to the October 2015 amendment discussed in Note 11, "Subsequent Events," the leverage ratio is tested quarterly, commencing with the period ended September 30, 2015, regardless of the amount of borrowings outstanding, and letters of credit issued, under the revolver at the testing date. In this report, the Company refers to the term "Adjusted EBITDA" to mean EBITDA as so defined for purposes of determining compliance with the senior secured leverage covenant. The senior secured leverage ratio measured at any applicable quarter end is Realogy Group's total senior secured net debt divided by the trailing twelve month adjusted EBITDA. Total senior secured net debt does not include the First and a Half Lien Notes, other indebtedness secured by a lien that is pari passu or junior in priority to the First and a Half Lien Notes, unsecured indebtedness, including the Unsecured Notes, as well as the securitization obligations. At September 30, 2015, Realogy Group’s senior secured leverage ratio was 2.36 to 1.00.

See Note 11, "Subsequent Events" for a description of the October 2015 amendment to the Amended and Restated Credit Agreement, pursuant to which the borrowing capacity under the Revolving Credit Facility was increased to $815 million. See Note 11, "Subsequent Events" for a description of the October 2015 Term Loan A Agreement, pursuant to which Realogy Group borrowed $435 million under a new Term Loan A Facility.

First Lien Notes

The First Lien Notes are senior secured obligations of Realogy Group and bore interest at a rate of 7.625% per annum. On October 23, 2015, Realogy Group issued a notice of redemption for all $593 million outstanding aggregate principal amount of the First Lien Notes and discharged its obligations under the related indenture. In connection with the redemption of the First Lien Notes and related discharge of the indenture, Realogy Group deposited a total of $638 million with the trustee, which included the applicable redemption premium and accrued and unpaid interest on the First Lien Notes. The payment of the redemption price was funded with the net proceeds from the new Term Loan A Facility described above and revolver borrowings.

First and a Half Lien Notes

The First and a Half Lien Notes are senior secured obligations of Realogy Group and mature in January 2020. The First and a Half Lien Notes bear interest at a rate of 9.00% per annum and interest is payable semiannually on January 15 and July 15 of each year. The First and a Half Lien Notes are guaranteed on a senior secured basis by Realogy Intermediate and each domestic subsidiary of Realogy Group that is a guarantor under the Senior Secured Credit Facility and Realogy Group's outstanding debt securities. The First and a Half Lien Notes are also guaranteed by Realogy Holdings, on an unsecured senior subordinated basis. The First and a Half Lien Notes are secured by the same collateral as the Company’s existing secured obligations under its Senior Secured Credit Facility and the new Term Loan A Facility. The priority of the collateral liens securing the First and a Half Lien Notes is junior to the collateral liens securing the Company’s first lien obligations under its Senior Secured Credit Facility and Term Loan A Facility.

See Note 11, "Subsequent Events" for a discussion of the Company's issuance of a notice of redemption to use cash on hand and revolver borrowings to repay the First and a Half Lien Notes on November 30, 2015.

Unsecured Notes

The 3.375% Senior Notes, 4.50% Senior Notes and 5.25% Senior Notes (collectively the "Unsecured Notes") are unsecured senior obligations of Realogy Group that mature on May 1, 2016, April 15, 2019 and December 1, 2021, respectively. Interest on the Unsecured Notes is payable each year semiannually on May 1 and November 1 for the 3.375% Senior Notes, April 15 and October 15 for the 4.50% Senior Notes and June 1 and December 1 for the 5.25% Senior Notes. The Unsecured Notes are guaranteed on an unsecured senior basis by each domestic subsidiary of Realogy Group that is a guarantor under the Senior Secured Credit Facility and Realogy Group's outstanding debt securities. The Unsecured Notes are guaranteed by Realogy Holdings on an unsecured senior subordinated basis.

Other Debt Facilities

The Company has an Unsecured Letter of Credit Facility to provide for the issuance of letters of credit required for general corporate purposes by the Company. In August 2015, the Company increased the capacity of the facility by $7

million from $81 million as of December 31, 2014 to $88 million. $27 million of capacity of the unsecured letter of credit facility expires in June 2017, $54 million of capacity expires in August 2017 and the remaining $7 million of capacity expires in September 2018. The fixed pricing to the Company is based on a spread above the credit default swap rate for senior unsecured debt obligations of the Company over the applicable letter of credit period. Realogy Group's obligations under the Unsecured Letter of Credit Facility are guaranteed on an unsecured senior basis by each domestic subsidiary of Realogy Group that is a guarantor under the Senior Secured Credit Facility and Realogy Group's outstanding debt securities. As of September 30, 2015, $82 million of the Facility is being utilized.

Securitization Obligations

Realogy Group has secured obligations through Apple Ridge Funding LLC under a securitization program. In June 2015, Realogy Group extended the program until June 2016 and temporarily increased the capacity under the facility from $325 million to $375 million from June 2015 until October 2015, at which time the capacity was reduced to $325 million. At September 30, 2015, Realogy Group has $325 million of outstanding borrowings under the facility.

Realogy Group, through a special purpose entity known as Cartus Financing Limited, has agreements providing for a £20 million revolving loan facility and a £5 million working capital facility, both of which expire in August 2016. There are $10 million of outstanding borrowings on the facilities at September 30, 2015. These Cartus Financing Limited facilities are secured by the relocation assets of a U.K. government contract in this special purpose entity and are therefore classified as permitted securitization financings as defined in Realogy Group’s Senior Secured Credit Facility and the indentures governing the Unsecured Notes and the First and a Half Lien Notes.

The Apple Ridge entities and the Cartus Financing Limited entity are consolidated special purpose entities that are utilized to securitize relocation receivables and related assets. These assets are generated from advancing funds on behalf of clients of Realogy Group’s relocation business in order to facilitate the relocation of their employees. Assets of these special purpose entities are not available to pay Realogy Group’s general obligations. Under the Apple Ridge program, provided no termination or amortization event has occurred, any new receivables generated under the designated relocation management agreements are sold into the securitization program and as new eligible relocation management agreements are entered into, the new agreements are designated to the program. The Apple Ridge program has restrictive covenants and trigger events, including performance triggers linked to the age and quality of the underlying assets, foreign obligor limits, multicurrency limits, financial reporting requirements, restrictions on mergers and change of control, any uncured breach of Realogy Group’s senior secured leverage ratio under Realogy Group’s Senior Secured Credit Facility, and cross-defaults to Realogy Group’s material indebtedness. The occurrence of a trigger event under the Apple Ridge securitization facility could restrict our ability to access new or existing funding under this facility or result in termination of the facility, either of which would adversely affect the operation of our relocation business.

Certain of the funds that Realogy Group receives from relocation receivables and related assets must be utilized to repay securitization obligations. These obligations were collateralized by $338 million and $286 million of underlying relocation receivables and other related relocation assets at September 30, 2015 and December 31, 2014, respectively. Substantially all relocation related assets are realized in less than twelve months from the transaction date. Accordingly, all of Realogy Group’s securitization obligations are classified as current in the accompanying Condensed Consolidated Balance Sheets.

Interest incurred in connection with borrowings under these facilities amounted to $1 million and $4 million for the three and nine months ended September 30, 2015, respectively and $1 million and $4 million for the three and nine months ended September 30, 2014, respectively. This interest is recorded within net revenues in the accompanying Condensed Consolidated Statements of Operations as related borrowings are utilized to fund Realogy Group's relocation business where interest is generally earned on such assets. These securitization obligations represent floating rate debt for which the average weighted interest rate was 2.0% and 2.4% for the nine months ended September 30, 2015 and 2014, respectively.

Loss on the Early Extinguishment of Debt and Write-Off of Deferred Financing Costs

As a result of refinancing activity and repurchases of debt during the first half of 2014, the Company recorded a loss on the early extinguishment of debt of $27 million and wrote off deferred financing costs of $3 million to interest expense during the nine months ended September 30, 2014.

19

Table of Contents

6. STOCK-BASED COMPENSATION

The Company has stock-based compensation plans available under which incentive equity awards such as non-qualified stock options, rights to purchase shares of common stock, restricted stock, restricted stock units and performance share units may be issued to employees, consultants or directors of Realogy.

Consistent with the 2014 long-term incentive equity awards, the 2015 awards include a mix of performance share unit awards ("PSUs"), restricted stock units (performance restricted stock units for the CEO and direct reports) and options.

The 2015 PSUs are incentives that reward grantees based upon the Company's financial performance over a three-year performance period ending December 31, 2017. There are two PSU awards: one is based upon the total stockholder return of Realogy's common stock relative to the total stockholder return of the SPDR S&P Homebuilders Index ("XHB") (the "RTSR award"), and the other is based upon the achievement of cumulative free cash flow goals. The number of shares that may be issued under the PSUs is variable and based upon the extent to which the performance goals are achieved over the performance period (with a range of payout from 0% to 175% of target for the RTSR award and 0% to 200% of target for the achievement of cumulative free cash flow award). The shares earned will be distributed in early 2018.

The restricted stock units vest over three years, with 33.33% vesting on each anniversary of the grant date. Time-vesting of performance restricted stock units for the CEO and direct reports is conditioned upon achievement of a minimum EBITDA performance goal for 2015.

The stock options have a maximum term of ten years and vest over four years, with 25% vesting on each anniversary date of the grant date. The options have an exercise price equal to the closing sale price of the Company's common stock on the date of grant.

The total number of shares authorized for issuance under the plans is 9.6 million shares. As of September 30, 2015, the total number of shares available for future grants under the plans was 1.4 million shares.

The fair value of restricted stock, restricted stock units and performance share units without a market condition is equal to the closing sale price of the Company's common stock on the date of grant. The fair value of the RTSR PSU award was estimated on the date of grant using the Monte Carlo Simulation method utilizing the following assumptions. Expected volatility was based on historical volatilities of the Company and select comparable companies.

	2015 RTSR PSU	
Weighted average grant date fair value	$41.08	
Weighted average expected volatility	25.1	%
Weighted average volatility of XHB	21.1	%
Weighted average correlation coefficient	0.57	
Weighted average risk-free interest rate	1.0	%
Weighted average dividend yield	—	

A summary of restricted stock, restricted stock unit and performance share unit activities for the nine months ended September 30, 2015 is presented below (number of shares in millions):

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share Units (b)	Weighted Average Grant Date Fair Value
Unvested at January 1, 2015	0.09	$27.14	0.74	$45.83	0.37	$46.63
Granted	—	—	0.62	46.52	0.43	44.69
Vested (a)	—	—	(0.30)	45.83	—	—
Forfeited	—	—	(0.02)	46.24	—	—
Unvested at September 30, 2015	0.09	$27.14	1.04	$46.21	0.80	$45.59

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(a)

The total fair value of restricted stock units which vested during the nine months ended September 30, 2015 was $14 million.

(b) The PSU amounts in the table are shown at the target amount of the award.

Table of Contents

The fair value of the options was estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following assumptions. Expected volatility was based on historical volatilities of the Company and select comparable companies. The expected term of the options granted represents the period of time that options were expected to be outstanding and is based on the "simplified method" in accordance with accounting guidance. The Company utilizes the simplified method to determine the expected life of options as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant, which corresponds to the expected term of the options.

	2015 Options
Weighted average grant date fair value	$ 17.66
Weighted average expected volatility	36.1 %
Weighted average expected term (years)	6.25
Weighted average risk-free interest rate	1.6 %
Weighted average dividend yield	—

A summary of stock option unit activity for the nine months ended September 30, 2015 is presented below (number of shares in millions):

	Options	Weighted Average Exercise Price
Outstanding at January 1, 2015	3.22	$ 30.02
Granted	0.18	46.45
Exercised (a) (b)	(0.16)	21.31
Forfeited/Expired	(0.03)	34.33
Outstanding at September 30, 2015 (c)	3.21	$ 31.31

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(a) The intrinsic value of options exercised during the nine months ended September 30, 2015 was $4 million.
(b) Cash received from options exercised during the nine months ended September 30, 2015 was $3 million.
(c) Options outstanding at September 30, 2015 have an intrinsic value of $34 million and have a weighted average remaining contractual life of 6.9 years.

Stock-Based Compensation Expense

As of September 30, 2015, based on current performance achievement expectations, there was $53 million of unrecognized compensation cost related to incentive equity awards under the plans which will be recorded in future periods as compensation expense over a remaining weighted average period of 1.2 years. The Company recorded stock-based compensation expense related to the incentive equity awards of $14 million and $40 million for the three and nine months ended September 30, 2015, respectively, and $11 million and $32 million for the three and nine months ended September 30, 2014, respectively.

7. TRANSACTIONS WITH FORMER PARENT AND SUBSIDIARIES

Transfer of Cendant Corporate Liabilities and Issuance of Guarantees to Cendant and Affiliates

Realogy Group (then Realogy Corporation) separated from Cendant on July 31, 2006 (the "Separation"), pursuant to a plan by Cendant (now known as Avis Budget Group, Inc.) to separate into four independent companies—one for each of Cendant's business units—real estate services (Realogy), travel distribution services ("Travelport"), hospitality services, including timeshare resorts ("Wyndham Worldwide"), and vehicle rental ("Avis Budget Group"). Realogy Group has certain guarantee commitments with Cendant (pursuant to the assumption of certain liabilities and the obligation to indemnify Cendant, Wyndham Worldwide and Travelport for such liabilities). These guarantee arrangements primarily relate to certain contingent litigation liabilities, contingent tax liabilities, and other corporate liabilities, of which Realogy Group assumed and is generally responsible for 62.5%. Upon separation from Cendant, the liabilities assumed by Realogy Group were comprised of certain Cendant corporate liabilities which were recorded on the

historical books of Cendant as well as additional liabilities which were established for guarantees issued at the date of Separation related to certain unresolved contingent matters that could arise during the guarantee period. Regarding the guarantees, if any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such

Table of Contents

liability, Realogy Group would be responsible for a portion of the defaulting party or parties' obligation. To the extent such recorded liabilities are in excess or are not adequate to cover the ultimate payment amounts, such excess or deficiency will be reflected in the results of operations in future periods.

The due to former parent balance was $32 million and $51 million at September 30, 2015 and December 31, 2014, respectively. The due to former parent balance was comprised of the Company's portion of the following: (i) Cendant's remaining state and foreign contingent tax liabilities, (ii) accrued interest on contingent tax liabilities, (iii) potential liabilities related to Cendant's terminated or divested businesses, and (iv) potential liabilities related to the residual portion of accruals for Cendant operations.

8. EARNINGS PER SHARE

Earnings per share attributable to Realogy Holdings

Basic earnings per share is computed based on net income attributable to Realogy Holdings stockholders divided by the basic 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. Realogy Holdings uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards and unexercised options. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2015	2014	2015	2014
Net income attributable to Realogy Holdings shareholders	$110	$100	$175	$122
Basic weighted average shares	146.6	146.0	146.5	145.9
Stock options, restricted stock, restricted stock units and performance share units (a)	1.5	1.0	1.5	1.1
Weighted average diluted shares	148.1	147.0	148.0	147.0
Earnings Per Share:				
Basic	$0.75	$0.68	$1.19	$0.84
Diluted	$0.74	$0.68	$1.18	$0.83

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(a) The three and nine months ended September 30, 2015, excludes 3.6 million and 3.7 million shares of common stock issuable for incentive equity awards, which includes performance share units based on the achievement of target amounts, respectively, that are anti-dilutive to the diluted earnings per share computation. The three and nine months ended September 30, 2014, excludes 3.7 million and 3.6 million shares of common stock issuable for incentive equity awards, which includes performance share units based on the achievement of target amounts, respectively, that are anti-dilutive to the diluted earnings per share computation.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in claims, legal proceedings, alternative dispute resolution and governmental inquiries related to alleged contract disputes, business practices, intellectual property and other commercial, employment, regulatory and tax matters. Examples of such matters include but are not limited to allegations:

- that the Company is vicariously liable for the acts of franchisees under theories of actual or apparent agency;
- by former franchisees that franchise agreements were breached including improper terminations;
- that residential real estate sales associates engaged by NRT—under certain state or federal laws—are potentially employees instead of independent contractors, and they or regulators therefore may bring claims against NRT for breach of contract, wage and hour classification claims, wrongful discharge and unemployment and workers' compensation and obtain benefits, back wages, overtime, indemnification, penalties related to classification practices and expense reimbursement available to employees;

- concerning claims for alleged RESPA or state real estate law violations including but not limited to claims challenging the validity of sales associates indemnification, and administrative fees;

Table of Contents

- concerning claims generally against the company owned brokerage operations for negligence, misrepresentation or breach of fiduciary duty in connection with the performance of real estate brokerage or other professional services; and
- concerning claims generally against the title company contending that, as the escrow company, the company knew or should have known that a transaction was fraudulent or concerning other title defects or settlement errors.

Real Estate Business Litigation

Bararsani v. Coldwell Banker Residential Brokerage Company. On November 15, 2012, plaintiff Ali Bararsani filed a putative class action complaint in Los Angeles Superior Court, California, against Coldwell Banker Residential Brokerage Company ("CBRBC") alleging that CBRBC had misclassified current and former affiliated sales associates as independent contractors when they were actually employees. The Company believes that CBRBC has properly classified the sales associates as independent contractors, would have significant defenses to the claims asserted in this action and continues to operate in a manner consistent with applicable law, and longstanding, widespread industry practice for many decades. To avoid further litigation expense, we entered into a settlement on May 5, 2015. The settlement requires court approval and was accrued for as of June 30, 2015. In entering into this settlement, CBRBC made no admission of wrongdoing or liability, and is not obligated to change its business structures. The court granted preliminary approval of the settlement in August 2015.

The Company is involved in certain other claims and legal actions arising in the ordinary course of our business. Such litigation, regulatory actions and other proceedings may include, but are not limited to, actions relating to intellectual property, commercial arrangements, franchising arrangements, actions against our title company alleging it knew or should have known that others were committing mortgage fraud, standard brokerage disputes like the failure to disclose hidden defects in the property such as mold, vicarious liability based upon conduct of individuals or entities outside of our control, including franchisees and independent sales associates, antitrust and anti-competition claims, general fraud claims, employment law claims, including claims challenging the classification of our sales associates as independent contractors, wage and hour classification claims and claims alleging violations of RESPA or state consumer fraud statutes. While the results of such claims and legal actions cannot be predicted with certainty, we do not believe based on information currently available to us that the final outcome of current proceedings against the Company will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Cendant Corporate Litigation

Pursuant to the Separation and Distribution Agreement dated as of July 27, 2006 among Cendant, Realogy Group, Wyndham Worldwide and Travelport, each of Realogy Group, Wyndham Worldwide and Travelport have assumed certain contingent and other corporate liabilities (and related costs and expenses), which are primarily related to each of their respective businesses. In addition, Realogy Group has assumed 62.5% and Wyndham Worldwide has assumed 37.5% of certain contingent and other corporate liabilities (and related costs and expenses) of Cendant or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy Group, Wyndham Worldwide, Travelport and/or Cendant's vehicle rental operations, in each case incurred or allegedly incurred on or prior to the date of the separation of Travelport from Cendant.

* * *

The Company believes that it has adequately accrued for legal matters as appropriate. The Company records litigation accruals for legal matters which are both probable and estimable.

Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. In addition, class action lawsuits can be costly to defend and, depending on the class size and claims, could be costly to settle. As such, the Company could incur judgments or enter into settlements of claims with liability that are materially in excess of amounts accrued and these settlements could have a material adverse effect on the Company's financial condition, results of operations or cash flows in any particular period.

Tax Matters

The Company is subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes and recording related assets and liabilities. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is

uncertain. The Company is regularly under audit by tax authorities whereby the outcome of the audits is uncertain. The Company

23

Table of Contents

believes there is appropriate support for positions taken on its tax returns. The liabilities that have been recorded represent the best estimates of the probable loss on certain positions and are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. However, the outcomes of tax audits are inherently uncertain.

Under the Tax Sharing Agreement with Cendant, Wyndham Worldwide and Travelport, the Company is generally responsible for 62.5% of payments made to settle claims with respect to tax periods ending on or prior to December 31, 2006 that relate to income taxes imposed on Cendant and certain of its subsidiaries, the operations (or former operations) of which were determined by Cendant not to relate specifically to the respective businesses of Realogy, Wyndham Worldwide, Avis Budget or Travelport.

With respect to any remaining legacy Cendant tax liabilities, the Company and its former parent believe there is appropriate support for the positions taken on Cendant's tax returns. However, tax audits and any related litigation, including disputes or litigation on the allocation of tax liabilities between parties under the Tax Sharing Agreement, could result in outcomes for the Company that are different from those reflected in the Company's historical financial statements.

Contingent Liability Letter of Credit

In April 2007, the Company established a standby irrevocable letter of credit for the benefit of Avis Budget Group in accordance with the Separation and Distribution Agreement. The synthetic letter of credit was utilized to support the Company's payment obligations with respect to its share of Cendant contingent and other corporate liabilities. The stated amount of the standby irrevocable letter of credit is subject to periodic adjustment to reflect the then current estimate of Cendant contingent and other liabilities. The letter of credit was $53 million at September 30, 2015 and December 31, 2014. The standby irrevocable letter of credit will be terminated if (i) the Company's senior unsecured credit rating is raised to BB by Standard and Poor's or Ba2 by Moody's or (ii) the aggregate value of the former parent contingent liabilities falls below $30 million.

Escrow and Trust Deposits

As a service to its customers, the Company administers escrow and trust deposits which represent undisbursed amounts received for the settlement of real estate transactions. Deposits at FDIC-insured institutions are insured up to $250 thousand. These escrow and trust deposits totaled $354 million at September 30, 2015 and $251 million at December 31, 2014. These escrow and trust deposits are not assets of the Company and, therefore, are excluded from the accompanying Condensed Consolidated Balance Sheets. However, the Company remains contingently liable for the disposition of these deposits.

10. SEGMENT INFORMATION

The reportable segments presented below represent the Company's operating segments for which separate financial information is available and which is utilized on a regular basis by its chief operating decision maker to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management evaluates the operating results of each of its reportable segments based upon revenue and EBITDA, which is defined as net income (loss) before depreciation and amortization, interest (income) expense, net (other than Relocation Services interest for relocation receivables and securitization obligations) and income taxes, each of which is presented in the Company's Condensed Consolidated Statements of Operations. The Company's presentation of EBITDA may not be comparable to similar measures used by other companies.

	Revenues (a) (b)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Real Estate Franchise Services	$214	$199	$578	$539
Company Owned Real Estate Brokerage Services	1,267	1,175	3,352	3,107
Relocation Services	124	125	317	