

REALOGY HOLDINGS CORP.

Form 10-Q

November 04, 2016

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2016

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)

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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 ☒ No ☐ Realogy Group LLC Yes ☐ No ☒

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 ☒ No ☐ Realogy Group LLC Yes ☒ 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	Smaller reporting company
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(Do not check if a  
smaller reporting  
company)

Realogy Holdings Corp.	<input checked="" type="checkbox"/>	..	..	..
Realogy Group LLC	<input type="checkbox"/>	..	<input checked="" type="checkbox"/>	..

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 ☒ Realogy Group LLC Yes ☐ No ☒

There were 142,630,189 shares of Common Stock, \$0.01 par value, of Realogy Holdings Corp. outstanding as of November 2, 2016.

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### 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 Term Loan A Facility and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the Senior Secured Credit Facility and Term Loan A Facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its 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, disruptions in a major geoeconomic region, or equity or commodity markets and high levels of unemployment in the U.S. and abroad, which may impact all or a 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 (including changes in regulatory interpretations or enforcement practices) that would adversely impact the residential real estate market, including changes relating to the Real Estate Settlement Procedures Act ("RESPA") and potential reforms of Fannie Mae and Freddie Mac, and potential tax code reform;

- continued or lengthier delays in homesale transaction closings that impact us or other industry participants resulting from the Consumer Financial Protection Bureau's rule relating to integrated mortgage disclosure forms, which became 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



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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;

increased competition whether through traditional competitors or competitors with alternative business models; competition for more productive agents and manager talent may continue to impact the ability of our company owned brokerage business and our affiliated franchisees to attract and retain independent sales associates, either individually or as members of a team, at commission split rates currently paid by our company owned brokerages and our affiliated franchisees;

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 net effective royalty rates, or to realize royalty revenue growth from them;

our inability to renew existing franchise agreements at current net effective royalty rates or without increasing the amount and prevalence of non-standard incentives, 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<sup>SM</sup> technology to our franchisees;

the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations, including the impact of lower average broker commission rates;

disputes or issues with entities that license us their tradenames 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, controversies with our franchisees or actions against us by their independent sales associates or employees or third parties with which our franchisees have business relationships;

loss or attrition among our senior executives or other key employees;

we may be unable to achieve or maintain cost savings and other benefits from our restructuring activities;

our restructuring activities could have an adverse impact on our operations;

our inability to realize the benefits from acquisitions due to the loss of key personnel or productive agents 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;

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) 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 voluntarily 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 and independent sales associate 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;

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risks relating to our ability to refinance or repay our indebtedness, incur additional indebtedness or return capital to stockholders;  
• changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits or the loss of one or more significant Affinity clients;

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• 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") including increases in mortgage rates, the impact of joint venture operational or liquidity risks, regulatory changes, litigation, investigations and inquiries and termination of the venture;

- 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 described in our Annual Report on Form 10-K for the year ended December 31, 2015), 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, 2015 (the "2015 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 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 this Report, 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 Realogy Holdings Corp.:

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Holdings Corp. and its subsidiaries as of September 30, 2016, and the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2016 and September 30, 2015 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and September 30, 2015. 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, 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2016, we expressed an unqualified opinion on those consolidated financial statements which included a paragraph that described the change in the manner of accounting for the presentation of debt issuance costs and the balance sheet classification of deferred taxes in 2015 and retrospectively for prior years. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015, 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 4, 2016

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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, 2016, and the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2016 and September 30, 2015 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and September 30, 2015. 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) and in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. 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) or in accordance with auditing standards generally accepted in the United States of America, 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, 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2016, we expressed an unqualified opinion on those consolidated financial statements which included a paragraph that described the change in the manner of accounting for the presentation of debt issuance costs and the balance sheet classification of deferred taxes in 2015 and retrospectively for prior years. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015, 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 4, 2016

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015		2015	
Revenues				
Gross commission income	\$1,211	\$1,251	\$3,288	\$3,310
Service revenue	273	265	715	664
Franchise fees	107	103	280	269
Other	53	49	157	138
Net revenues	1,644	1,668	4,440	4,381
Expenses				
Commission and other agent-related costs	834	855	2,256	2,262
Operating	400	381	1,158	1,089
Marketing	58	56	181	171
General and administrative	78	85	234	255
Former parent legacy costs (benefit), net	—	(14)	1	(15)
Restructuring costs	9	—	30	—
Depreciation and amortization	53	55	149	153
Interest expense, net	37	70	169	188
Other income, net	(1)	(2)	(1)	(3)
Total expenses	1,468	1,486	4,177	4,100
Income before income taxes, equity in earnings and noncontrolling interests	176	182	263	281
Income tax expense	74	74	114	116
Equity in earnings of unconsolidated entities	(5)	(4)	(10)	(13)
Net income	107	112	159	178
Less: Net income attributable to noncontrolling interests	(1)	(2)	(3)	(3)
Net income attributable to Realogy Holdings and Realogy Group	\$106	\$110	\$156	\$175
Earnings per share attributable to Realogy Holdings:				
Basic earnings per share	\$0.74	\$0.75	\$1.07	\$1.19
Diluted earnings per share	\$0.73	\$0.74	\$1.06	\$1.18
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic	144.0	146.6	145.4	146.5
Diluted	145.1	148.1	146.6	148.0
Cash dividends declared per share (beginning in August 2016)	\$0.09	\$—	\$0.09	\$—

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$ 107	\$ 112	\$ 159	\$ 178
Currency translation adjustment	—	(3 )	(3 )	(3 )
Defined benefit pension plan - amortization of actuarial loss to periodic pension cost	—	1	1	1
Other comprehensive loss, before tax	—	(2 )	(2 )	(2 )
Income tax expense related to items of other comprehensive income	1	1	1	1
Other comprehensive loss, net of tax	(1 )	(3 )	(3 )	(3 )
Comprehensive income	106	109	156	175
Less: comprehensive income attributable to noncontrolling interests	(1 )	(2 )	(3 )	(3 )
Comprehensive income attributable to Realogy Holdings and Realogy Group	\$ 105	\$ 107	\$ 153	\$ 172

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 224	\$ 415
Trade receivables (net of allowance for doubtful accounts of \$14 and \$20)	172	141
Relocation receivables	290	279
Other current assets	140	126
Total current assets	826	961
Property and equipment, net	254	254
Goodwill	3,690	3,618
Trademarks	748	745
Franchise agreements, net	1,378	1,428
Other intangibles, net	326	316
Other non-current assets	233	209
Total assets	\$ 7,455	\$ 7,531
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 142	\$ 139
Securitization obligations	255	247
Due to former parent	31	31
Current portion of long-term debt	197	740
Accrued expenses and other current liabilities	431	448
Total current liabilities	1,056	1,605
Long-term debt	3,273	2,962
Deferred income taxes	365	267
Other non-current liabilities	293	275
Total liabilities	4,987	5,109
Commitments and contingencies (Notes 8 and 10)		
Equity:		
Realogy Holdings preferred stock: \$.01 par value; 50,000,000 shares authorized, none issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Realogy Holdings common stock: \$.01 par value; 400,000,000 shares authorized, 142,623,095 shares outstanding at September 30, 2016 and 146,746,537 shares outstanding at December 31, 2015	1	1
Additional paid-in capital	5,621	5,733
Accumulated deficit	(3,119)	(3,280)
Accumulated other comprehensive loss	(39)	(36)
Total stockholders' equity	2,464	2,418
Noncontrolling interests	4	4
Total equity	2,468	2,422
Total liabilities and equity	\$ 7,455	\$ 7,531

See Notes to Condensed Consolidated Financial Statements.



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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2016 2015	
Operating Activities		
Net income	\$159	\$178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	149	153
Deferred income taxes	98	100
Amortization of deferred financing costs and discount	12	13
Equity in earnings of unconsolidated entities	(10 )	(13 )
Stock-based compensation	39	40
Mark-to-market adjustments on derivatives	39	26
Other adjustments to net income	(4 )	(3 )
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(29 )	(56 )
Relocation receivables	(14 )	(54 )
Other assets	(20 )	(24 )
Accounts payable, accrued expenses and other liabilities	(5 )	52
Due to former parent	1	(19 )
Dividends received from unconsolidated entities	5	7
Other, net	(9 )	—
Net cash provided by operating activities	411	400
Investing Activities		
Property and equipment additions	(61 )	(60 )
Payments for acquisitions, net of cash acquired	(95 )	(111 )
Change in restricted cash	(2 )	1
Other, net	(5 )	(1 )
Net cash used in investing activities	(163 )	(171 )
Financing Activities		
Net change in revolving credit facility	(45 )	—
Proceeds from issuance of Term Loan A-1	355	—
Repayment of amended Term Loan B facility	(758 )	—
Repayments of term loan facilities	(31 )	(14 )
Proceeds from issuance of Senior Notes	750	—
Redemption of Senior Notes	(500 )	—
Net change in securitization obligations	9	67
Debt issuance costs	(15 )	(1 )
Repurchase of common stock	(134 )	—
Dividends paid on common stock	(13 )	—
Proceeds from exercise of stock options	1	3
Taxes paid related to net share settlement for stock-based compensation	(6 )	(5 )
Payments of contingent consideration related to acquisitions	(23 )	(5 )

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Other, net	(28 )	(18 )
Net cash (used in) provided by financing activities	(438 )	27
Effect of changes in exchange rates on cash and cash equivalents	(1 )	(2 )
Net (decrease) increase in cash and cash equivalents	(191 )	254
Cash and cash equivalents, beginning of period	415	313
Cash and cash equivalents, end of period	\$224	\$567
Supplemental Disclosure of Cash Flow Information		
Interest payments (including securitization interest of \$5 and \$4 for the periods presented)	\$117	\$165
Income tax payments, net	13	10

See Notes to Condensed Consolidated Financial Statements.

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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, 2016 and the results of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015 and cash flows for the nine months ended September 30, 2016 and 2015. 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, 2015 included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Fair Value Measurements

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

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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 Company measures financial instruments at fair value on a recurring basis and recognizes transfers within the fair value hierarchy at the end of the fiscal quarter in which the change in circumstances that caused the transfer occurred. There have been no transfers between Level I, II or III assets or liabilities during the nine months ended September 30, 2016.

The following table summarizes fair value measurements by level at September 30, 2016 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)	\$ —	\$ 71	\$ —	\$ 71
Deferred compensation plan assets (included in other non-current assets)	3	—	—	3
Contingent consideration for acquisitions (included in accrued expenses and other current liabilities and non-current liabilities)	—	—	53	53

The following table summarizes fair value measurements by level at December 31, 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)	\$ —	\$ 47	\$ —	\$ 47
Deferred compensation plan assets (included in other non-current assets)	3	—	—	3
Contingent consideration for acquisitions (included in accrued expenses and other current liabilities and non-current liabilities)	—	—	59	59

The fair value of the Company's contingent consideration for acquisitions is measured using a probability weighted-average discount rate to estimate future cash flows based upon the likelihood of achieving future operating results for individual acquisitions. These assumptions are deemed to be unobservable inputs and as such the Company's contingent consideration is classified within Level III of the valuation hierarchy. The Company reassesses the fair value of the contingent consideration liabilities on a quarterly basis.

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

	Level III
Fair value of contingent consideration at December 31, 2015	\$ 59
Additions: contingent consideration related to acquisitions completed during the period	19
Reductions: payments of contingent consideration (reflected in the financing section of the Consolidated Statement of Cash Flows)	(23 )
Changes in fair value (reflected in the Consolidated Statement of Operations)	(2 )
Fair value of contingent consideration at September 30, 2016	\$ 53

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

Debt	September 30, 2016		December 31, 2015	
	Principal Amount	Estimated Fair Value (a)	Principal Amount	Estimated Fair Value (a)
Senior Secured Credit Facility:				
Revolving Credit Facility	\$ 155	\$ 155	\$ 200	\$ 200
Term Loan B	1,097	1,103	1,867	1,849
Term Loan A Facility:				
Term Loan A	419	418	435	426
Term Loan A-1	353	352	—	—
3.375% Senior Notes	—	—	500	500
4.50% Senior Notes	450	469	450	464
5.25% Senior Notes	550	577	300	308
4.875% Senior Notes	500	509	—	—
Securitization obligations	255	255	247	247

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

**Investment in PHH Home Loans**

The Company owns 49.9% of PHH Home Loans, a mortgage origination venture formed in 2005 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 \$4 million and \$3 million for the three months ended September 30, 2016 and September 30, 2015, respectively, and \$7 million and \$11 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. The Company received \$3 million in cash dividends from PHH Home Loans during the nine months ended September 30, 2016 compared to \$5 million in cash dividends during the same period in 2015. The Company's investment in PHH Home Loans is \$63 million at September 30, 2016 and \$58 million at December 31, 2015.

**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 for both of the three months ended September 30, 2016 and September 30, 2015 and \$114 million and \$116 million for the nine months ended September 30, 2016 and September 30, 2015, respectively.

**Derivative Instruments**

The Company records derivatives and hedging activities on the balance sheet at their respective fair values. 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 not elected 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, 2016, the Company had outstanding foreign currency forward contracts with a fair value of less than \$1 million and a notional value of \$35 million. As of December 31, 2015, the Company had outstanding foreign currency forward contracts with a fair value of less than \$1 million and a notional value of \$33 million.



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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 interest rate swaps with an aggregate notional value of \$1,475 million to offset the variability in cash flows resulting from the term loan facilities as follows:

Notional Value (in millions)	Commencement Date	Expiration Date
\$225	July 2012	February 2018
\$200	January 2013	February 2018
\$600	August 2015	August 2020
\$450	November 2017	November 2022

The swaps help to protect our outstanding variable rate borrowings from future interest rate volatility. 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		Fair Value	
Not Designated as Hedging Instruments	Balance Sheet Location	September 30, 2016	December 31, 2015
		2016	2015
Interest rate swap contracts	Other non-current liabilities	\$ 71	\$ 47

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, 2016	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest rate swap contracts	Interest expense	\$(5)	\$ 16	\$40	\$27
Foreign exchange contracts	Operating expense	(1 )	—	(1 )	(1 )
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 \$10 million and \$8 million at September 30, 2016 and December 31, 2015, 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, 2016 and September 30, 2015 included capital lease additions of \$10 million and \$13 million, respectively, which resulted in non-cash additions to property and equipment, net and other non-current liabilities.

Stock Repurchases

The Company may repurchase shares of its common stock under authorizations made from its Board of Directors. Shares repurchased are retired and not displayed separately as treasury stock on the consolidated financial statements. The par value of the shares repurchased and retired is deducted from common stock and the excess of the purchase price over par value is first charged against any available additional paid-in capital with the balance charged to retained earnings. Direct costs incurred to repurchase the shares are included in the total cost of the shares. In February 2016, the Company's Board of Directors authorized a share repurchase program of up to \$275 million of the Company's common stock. From the date of authorization through September 30, 2016, the Company repurchased and retired 4.5 million shares of common stock for \$134 million at a weighted average market price of \$29.49 per share.

Dividend Policy

In August 2016, the Company's Board of Directors approved the initiation of a quarterly cash dividend policy on its common stock. The Board declared a cash dividend of \$0.09 per share of the Company's common stock, paid on August 31, 2016 to stockholders of record as of the close of business on August 17, 2016.

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The declaration and payment of any future dividend will be subject to the discretion of the Board of Directors and will depend on a variety of factors, including the Company's financial condition and results of operations, contractual restrictions, including restrictive covenants contained in the Company's credit agreements, and the indentures governing the Company's outstanding debt securities, capital requirements and other factors that the Board of Directors deems relevant.

Pursuant to the Company's policy, the dividends payable in cash are treated as a reduction of additional paid-in capital since the Company is currently in a retained deficit position.

### Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") —Improvements to Employee Share-Based Payment Accounting, amending guidance related to employee share-based payment accounting. The Company elected to early adopt this ASU in the third quarter of 2016 using a modified retrospective approach, effective as if adopted the first day of the fiscal year, January 1, 2016. Adoption of the new guidance resulted in the following:

The new ASU requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled and will be applied on a prospective basis. Any excess tax benefits that were not previously recognized because the related tax deduction had not reduced current taxes payable are to be recorded on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period in which the new guidance is adopted. The Company recorded a cumulative increase of \$5 million to its January 1, 2016 accumulated deficit balance with a corresponding decrease in deferred tax liabilities related to the prior years' unrecognized excess tax benefits.

Furthermore, the guidance requires that income taxes paid by the Company related to the net share settlement for stock-based compensation be presented as a financing activity on the statement of cash flows and requires retrospective application. The Company applied this cash flow presentation change which resulted in the reclassification of \$6 million and \$5 million of taxes paid related to net share settlements of stock-based compensation awards from operating activities to financing activities during the nine months ended September 30, 2016 and 2015, respectively.

In addition, the Company elected to account for forfeitures on share-based payment awards in compensation cost as they occur as opposed to estimating forfeitures. The cumulative impact for the forfeiture change was immaterial and was recorded as a decrease to the January 1, 2016 accumulated deficit balance. The current year impact for the change was immaterial and was recognized in the third quarter of 2016.

### Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates. 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 August 2016, the FASB issued a new standard on classification of cash receipts and payments on the statement of cash flows intending to reduce diversity in practice on how certain transactions are classified. The new standard is effective for annual periods beginning after December 15, 2017 and will require a retrospective application at the beginning of the earliest comparative period presented in the year of adoption. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

In February 2016, the FASB issued its new standard on leases which requires virtually all leases to be recognized on the balance sheet. Lessees will recognize a right-of-use asset and a lease liability for all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance leases. Operating leases will result in straight-line expense, similar to current operating leases, while finance leases will result in a front-loaded expense pattern, similar to current capital leases. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The new leasing standard requires modified retrospective transition, which requires application of the new guidance at the beginning of the earliest comparative



period presented in the year of adoption. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

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In May 2014, the FASB issued a standard on revenue recognition that will impact 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 permits for two alternative implementation methods, the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt the new standard in the first quarter of 2018 but has not yet determined the method by which the standard will be adopted. The Company does not expect the new standard to have a material impact on the financial results of the Company as the majority of our revenue is recognized at the completion of a homesale transaction which will not be impacted by this new revenue recognition guidance. The Company is currently evaluating the impact of the standard on other revenue streams.

**2. ACQUISITIONS****2016 Acquisitions**

During the nine months ended September 30, 2016, the Company acquired nine real estate brokerage and property management operations through its wholly owned subsidiary, NRT, for aggregate cash consideration of \$74 million and established \$9 million of contingent consideration. These acquisitions resulted in goodwill of \$52 million, customer relationships of \$20 million, pendings and listings of \$6 million, other intangible assets of \$3 million, other assets of \$4 million and other liabilities of \$2 million.

During the nine months ended September 30, 2016, the Company acquired one title and settlement operation through its wholly owned subsidiary, TRG, for cash consideration of \$24 million and established \$10 million of contingent consideration. This acquisition resulted in goodwill of \$20 million, title plant of \$7 million, pendings of \$5 million, trademarks of \$3 million, other intangible assets of \$2 million, other assets of \$6 million and other liabilities of \$9 million.

None of the 2016 acquisitions were significant to the Company's results of operations, financial position or cash flows individually or in the aggregate.

**2015 Acquisitions**

During the year ended December 31, 2015, the Company acquired thirteen 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 \$96 million and established \$13 million of liabilities related to contingent consideration and other acquisition related liabilities. These acquisitions resulted in goodwill of \$94 million, pendings and listings of \$10 million, other intangibles of \$1 million, other assets of \$7 million and other liabilities of \$3 million. During the year ended December 31, 2015, the Company acquired three title and settlement operations through its wholly owned subsidiary, TRG, for cash consideration of \$34 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 \$8 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.

**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, 2015	\$ 3,315	\$ 999	\$ 641	\$ 449	\$ 5,404
Accumulated impairment losses	(1,023 )	(158 )	(281 )	(324 )	(1,786 )
Balance at December 31, 2015	2,292	841	360	125	3,618
Goodwill acquired	—	52	—	20	72

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Balance at September 30, 2016	\$ 2,292	\$ 893	\$ 360	\$ 145	\$ 3,690
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Intangible assets are as follows:

	As of September 30, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable—Franchise agreements (a)	\$2,019	\$ 641	\$ 1,378	\$2,019	\$ 591	\$ 1,428
Indefinite life—Trademarks (b)	\$748		\$ 748	\$745		\$ 745
Other Intangibles						
Amortizable—License agreements (c)	\$45	\$ 9	\$ 36	\$45	\$ 8	\$ 37
Amortizable—Customer relationships (d)	\$50	304	246	530	284	246
Indefinite life—Title plant shares (e)	18		18	11		11
Amortizable—Pendings and listings (f)	10	5	5	3	1	2
Amortizable—Other (g)	36	15	21	31	11	20
Total Other Intangibles	\$659	\$ 333	\$ 326	\$620	\$ 304	\$ 316

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

(b) Primarily relates to the Century 21®, Coldwell Banker®, ERA®, Corcoran®, 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, the Real Estate Franchise Services segment and our Company Owned Real Estate Brokerage Services segment. These relationships are being amortized over a period of 2 to 20 years.

(e) 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, 2016		Nine Months Ended September 30, 2015	
Franchise agreements	\$ 16	\$ 17	\$ 50	\$ 50
License agreements	—	—	1	1
Customer relationships	7	7	20	21
Pendings and listings	7	8	9	14
Other	1	1	4	4
Total	\$ 31	\$ 33	\$ 84	\$ 90

Based on the Company's amortizable intangible assets as of September 30, 2016, the Company expects related amortization expense for the remainder of 2016, the four succeeding years and thereafter to be approximately \$27 million, \$102 million, \$97 million, \$96 million, \$94 million and \$1,270 million, respectively.

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## 4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of:

	September 30, 2016	December 31, 2015
Accrued payroll and related employee costs	\$ 111	\$ 140
Accrued volume incentives	33	34
Accrued commissions	38	29
Restructuring accruals	11	9
Deferred income	65	73
Accrued interest	32	13
Contingent consideration for acquisitions	27	27
Other	114	123
Total accrued expenses and other current liabilities	\$ 431	\$ 448

## 5. SHORT AND LONG-TERM DEBT

Total indebtedness is as follows:

	September 30, 2016	December 31, 2015
Senior Secured Credit Facility:		
Revolving Credit Facility	\$ 155	\$ 200
Term Loan B	1,071	1,839
Term Loan A Facility:		
Term Loan A	417	433
Term Loan A-1	349	—
3.375% Senior Notes	—	499
4.50% Senior Notes	438	434
5.25% Senior Notes	545	297
4.875% Senior Notes	495	—
Total Short-Term & Long-Term Debt	\$ 3,470	\$ 3,702
Securitization obligations:		
Apple Ridge Funding LLC	\$ 240	\$ 238
Cartus Financing Limited	15	9
Total securitization obligations	\$ 255	\$ 247

## Indebtedness Table

As of September 30, 2016, the Company's borrowing arrangements were as follows:

	Interest Rate	Expiration Date	Principal Amount	Unamortized Discount and Debt Issuance Costs	Net Amount
Senior Secured Credit Facility:					
Revolving Credit Facility (1)	(2)	October 2020	\$ 155	\$ *	\$ 155
Term Loan B	(3)	July 2022	1,097	26	1,071
Term Loan A Facility:					
Term Loan A	(4)	October 2020	419	2	417
Term Loan A-1	(5)	July 2021	353	4	349
Senior Notes	4.50%	April 2019	450	12	438
Senior Notes	5.25%	December 2021	550	5	545
Senior Notes	4.875%	June 2023	500	5	495
Securitization obligations: (6)					

Apple Ridge Funding LLC (7)	June 2017	240	*
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