

REALOGY HOLDINGS CORP.
Form 10-Q
July 31, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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 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.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Large accelerated	Accelerated filer	Non-accelerated filer	Smaller reporting

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filer	(Do not check if a smaller reporting company)	company
Realogy Holdings Corp.	<input type="checkbox"/>	<input type="checkbox"/>
Realogy Group LLC	<input type="checkbox"/>	<input 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 146,624,441 shares of Common Stock, \$0.01 par value, of Realogy Holdings Corp. outstanding as of July 29, 2015.

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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 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.

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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;

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 October 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;

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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 to comply with laws, regulations and regulatory interpretations and any changes in laws and regulations or broader 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 or state consumer protection or similar laws;

• any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards;

• 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");

• any remaining resolutions or outcomes with respect to Cendant Corporation's contingent liabilities 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.

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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 June 30, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three and six-month periods ended June 30, 2015 and June 30, 2014 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2015 and June 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
July 31, 2015

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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 June 30, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three and six-month periods ended June 30, 2015 and June 30, 2014 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2015 and June 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
July 31, 2015

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Gross commission income	\$1,278	\$1,170	\$2,059	\$1,908
Service revenue	228	211	399	376
Franchise fees	99	92	166	155
Other	46	39	89	80
Net revenues	1,651	1,512	2,713	2,519
Expenses				
Commission and other agent-related costs	877	804	1,407	1,304
Operating	366	340	708	676
Marketing	59	52	115	103
General and administrative	92	65	170	135
Former parent legacy costs (benefit), net	(1	) —	(1	) 1
Depreciation and amortization	52	46	98	92
Interest expense, net	50	73	118	143
Loss on the early extinguishment of debt	—	17	—	27
Other (income)/expense, net	(1	) (1	) (1	) (1
Total expenses	1,494	1,396	2,614	2,480
Income before income taxes, equity in earnings and noncontrolling interests	157	116	99	39
Income tax expense	66	51	42	17
Equity in earnings of unconsolidated entities	(7	) (4	) (9	) (1
Net income	98	69	66	23
Less: Net income attributable to noncontrolling interests	(1	) (1	) (1	) (1
Net income attributable to Realogy Holdings and Realogy Group	\$97	\$68	\$65	\$22
Earnings per share attributable to Realogy Holdings:				
Basic earnings per share	\$0.66	\$0.47	\$0.44	\$0.15
Diluted earnings per share	\$0.66	\$0.46	\$0.44	\$0.15
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic	146.5	145.9	146.4	145.9
Diluted	148.0	146.8	147.9	147.0

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 98	\$ 69	\$ 66	\$ 23
Currency translation adjustment	2	1	—	2
Other comprehensive income, before tax	2	1	—	2
Income tax expense related to items of other comprehensive income amounts	—	—	—	—
Other comprehensive income, net of tax	2	1	—	2
Comprehensive income	100	70	66	25
Less: comprehensive income attributable to noncontrolling interests	(1	) (1	) (1	) (1
Comprehensive income attributable to Realogy Holdings and Realogy Group	\$ 99	\$ 69	\$ 65	\$ 24

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 359	\$ 313
Trade receivables (net of allowance for doubtful accounts of \$24 and \$27)	163	116
Relocation receivables	434	297
Deferred income taxes	210	180
Other current assets	136	120
Total current assets	1,302	1,026
Property and equipment, net	236	233
Goodwill	3,554	3,477
Trademarks	736	736
Franchise agreements, net	1,462	1,495
Other intangibles, net	325	341
Other non-current assets	231	230
Total assets	\$ 7,846	\$ 7,538
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 154	\$ 128
Securitization obligations	389	269
Due to former parent	46	51
Current portion of long-term debt	519	19
Accrued expenses and other current liabilities	422	411
Total current liabilities	1,530	878
Long-term debt	3,383	3,891
Deferred income taxes	413	350
Other non-current liabilities	247	236
Total liabilities	5,573	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 June 30, 2015 and December 31, 2014	—	—
Realogy Holdings common stock: \$.01 par value; 400,000,000 shares authorized, 146,591,075 shares outstanding at June 30, 2015 and 146,382,923 shares outstanding at December 31, 2014	1	1
Additional paid-in capital	5,702	5,677
Accumulated deficit	(3,399)	(3,464)
Accumulated other comprehensive loss	(35)	(35)
Total stockholders' equity	2,269	2,179
Noncontrolling interests	4	4
Total equity	2,273	2,183
Total liabilities and equity	\$ 7,846	\$ 7,538

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating Activities		
Net income	\$ 66	\$ 23