

REALOGY HOLDINGS CORP.
Form 10-Q
August 03, 2018
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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, 2018

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, smaller reporting companies, or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Accelerated Non-accelerated filer

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	Large accelerated filer	filer	(Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
Realogy Holdings Corp.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Realogy Group LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 124,021,855 shares of Common Stock, \$0.01 par value, of Realogy Holdings Corp. outstanding as of August 1, 2018.

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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 Amended and Restated Credit Agreement dated as of March 5, 2013, as amended from time to time (the "Senior Secured Credit Facility") and the Term Loan A Agreement dated as of October 23, 2015, as amended from time to time (the "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.

As used in this Quarterly Report on Form 10-Q, the terms "4.50% Senior Notes," "5.25% Senior Notes" and "4.875% Senior Notes" refer to our 4.50% Senior Notes due 2019, our 5.25% Senior Notes due 2021 and our 4.875% Senior Notes due 2023, respectively, and are referred to collectively as the "Unsecured Notes."

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act").

Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "believe," "expect," "anticipate," "intend," "project," "estimate," "plan," 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.

In particular, information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished.

The following include some, but not all, of the factors that could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

• adverse developments or the absence of sustained improvement in general business, economic and political conditions or 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 or a reduction in the affordability of housing;

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

insufficient or excessive home inventory levels by market and price point;

a lack of improvement or deceleration in the building of new housing and/or irregular timing or volume of new development closings;

the potential negative impact of certain provisions of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") (i) on home values over time in states with high property, sales and state and local income taxes and (ii) on homeownership rates; and/or

a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate whether broadly or by geography and price segments;

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increased competition in the industry and for independent sales agents whether through traditional competitors, competitors with alternative business models or other industry participants otherwise competing for a portion of gross commission income;

continuing pressure on the share of gross commission income paid by our company owned brokerages and our affiliated franchisees to their independent affiliated sales agents;

our geographic and high-end market concentration;

our inability to enter into franchise agreements with new franchisees or renew existing franchise agreements at current contractual royalty rates without increasing the amount and prevalence of sales incentives;

the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations;

changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits, increasing competition in corporate relocation or the loss of one or more significant affinity clients;

an increase in the experienced claims losses of our title underwriter;

our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes or stricter interpretations of any of the foregoing, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales agents to employee status, (2) privacy or data security laws and regulations and (3) RESPA or federal or state consumer protection or similar laws;

risks relating to our ability to return capital to stockholders pursuant to our stock repurchase program;

risks and growing costs related to cybersecurity threats to our data and customer, franchisee, employee and independent sales agent data; and

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.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"), particularly under the captions "Forward-Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

All forward-looking statements herein speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. 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.

Results of Review of Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Holdings Corp. and its subsidiaries as of June 30, 2018, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2018 and 2017, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2018, 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, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our reviews in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP
Florham Park, New Jersey
August 3, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Realogy Group LLC

Results of Review of Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Group LLC and its subsidiaries as of June 30, 2018, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2018 and 2017, including the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, 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, the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2018, 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, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our reviews in accordance with the standards of the PCAOB 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 PCAOB 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.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey

August 3, 2018

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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,	
	2018	2017	2018	2017
Revenues				
Gross commission income	\$1,388	\$1,374	\$2,290	\$2,255
Service revenue	263	255	460	449
Franchise fees	114	110	193	185
Other	55	54	106	107
Net revenues	1,820	1,793	3,049	2,996
Expenses				
Commission and other agent-related costs	1,009	970	1,654	1,575
Operating	392	385	784	768
Marketing	69	70	136	132
General and administrative	75	98	164	187
Former parent legacy benefit, net	—	(11)	—	(11)
Restructuring costs, net	6	2	36	7
Depreciation and amortization	49	49	97	99
Interest expense, net	46	47	79	86
Loss on the early extinguishment of debt	—	—	7	4
Total expenses	1,646	1,610	2,957	2,847
Income before income taxes, equity in (earnings) losses and noncontrolling interests	174	183	92	149
Income tax expense	52	73	33	64
Equity in (earnings) losses of unconsolidated entities	(2)	—	2	3
Net income	124	110	57	82
Less: Net income attributable to noncontrolling interests	(1)	(1)	(1)	(1)
Net income attributable to Realogy Holdings and Realogy Group	\$123	\$109	\$56	\$81
Earnings per share attributable to Realogy Holdings:				
Basic earnings per share	\$0.97	\$0.79	\$0.44	\$0.58
Diluted earnings per share	\$0.96	\$0.78	\$0.43	\$0.58
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic	126.5	137.6	128.4	138.6
Diluted	127.6	138.9	129.7	139.9
Cash dividends declared per share	\$0.09	\$0.09	\$0.18	\$0.18

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$124	\$110	\$57	\$82
Currency translation adjustment	(3)	1	(2)	2
Defined benefit pension plan - amortization of actuarial loss to periodic pension cost	—	—	1	—
Other comprehensive income (loss), before tax	(3)	1	(1)	2
Income tax expense related to items of other comprehensive income amounts	—	—	—	—
Other comprehensive income (loss), net of tax	(3)	1	(1)	2
Comprehensive income	121	111	56	84
Less: comprehensive income attributable to noncontrolling interests	(1)	(1)	(1)	(1)
Comprehensive income attributable to Realogy Holdings and Realogy Group	\$120	\$110	\$55	\$83

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$230	\$ 227
Restricted cash	9	7
Trade receivables (net of allowance for doubtful accounts of \$9 and \$11)	198	153
Relocation receivables	336	223
Other current assets	156	179
Total current assets	929	789
Property and equipment, net	283	289
Goodwill	3,711	3,710
Trademarks	749	749
Franchise agreements, net	1,260	1,294
Other intangibles, net	269	284
Other non-current assets	290	222
Total assets	\$7,491	\$ 7,337
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$178	\$ 156
Securitization obligations	261	194
Current portion of long-term debt	788	127
Accrued expenses and other current liabilities	413	478
Total current liabilities	1,640	955
Long-term debt	2,812	3,221
Deferred income taxes	341	327
Other non-current liabilities	256	212
Total liabilities	5,049	4,715
Commitments and contingencies (Note 8)		
Equity:		
Realogy Holdings preferred stock: \$.01 par value; 50,000,000 shares authorized, none issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Realogy Holdings common stock: \$.01 par value; 400,000,000 shares authorized, 124,647,343 shares issued and outstanding at June 30, 2018 and 131,636,870 shares issued and outstanding at December 31, 2017	1	1
Additional paid-in capital	5,073	5,285
Accumulated deficit	(2,588)	(2,631)
Accumulated other comprehensive loss	(47)	(37)
Total stockholders' equity	2,439	2,618
Noncontrolling interests	3	4
Total equity	2,442	2,622
Total liabilities and equity	\$7,491	\$ 7,337

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended	
	June 30,	2017
	2018	
Operating Activities		
Net income	\$ 57	\$ 82
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	97	99
Deferred income taxes	22	57
Amortization of deferred financing costs and discount	7	8
Loss on the early extinguishment of debt	7	4
Equity in losses of unconsolidated entities	2	3
Stock-based compensation	21	25
Mark-to-market adjustments on derivatives	(13)	5
Other adjustments to net income	1	(1)
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(44)	(26)
Relocation receivables	(114)	(47)
Other assets	(18)	(29)
Accounts payable, accrued expenses and other liabilities	(13)	11
Dividends received from unconsolidated entities	1	2
Other, net	(4)	(7)
Net cash provided by operating activities	9	186
Investing Activities		
Property and equipment additions	(49)	(48)
	(1)	(4)

Payments for acquisitions, net of cash acquired				
Investment in unconsolidated entities	(15	)	(3)
Proceeds from investments in unconsolidated entities	19		—	
Other, net	1		(1)
Net cash used in investing activities	(45	)	(56)
Financing Activities				
Net change in revolving credit facility	242		(10)
Payments for refinancing of Term Loan B	(4)	—	
Proceeds from refinancing of Term Loan A & A-1	17		—	
Amortization payments on term loan facilities	(10	)	(21)
Net change in securitization obligations	67		18	
Debt issuance costs	(16	)	(6)
Repurchase of common stock	(200	)	(121)
Dividends paid on common stock	(23	)	(25)
Proceeds from exercise of stock options	—		3	
Taxes paid related to net share settlement for stock-based compensation	(10	)	(10)
Payments of contingent consideration related to acquisitions	(4	)	(4)
Other, net	(17	)	(10)
Net cash provided by (used in) financing activities	42		(186)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	(1	)	1	
Net increase (decrease) in cash, cash equivalents and restricted cash	5		(55)
Cash, cash equivalents and restricted cash, beginning of period	234		281	

Cash, cash equivalents and restricted cash, end of period	\$	239	\$	226
Supplemental Disclosure of Cash Flow Information				
Interest payments (including securitization interest of \$4 and \$3 for the periods presented)	\$	87	\$	86
Income tax payments, net			8	

See Notes to Condensed Consolidated Financial Statements.

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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. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

In management's opinion, the accompanying unaudited Condensed Consolidated Financial Statements reflect all normal and recurring adjustments necessary for a fair statement of Realogy Holdings and Realogy Group's financial position as of June 30, 2018 and the results of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017. The Consolidated Balance Sheet at December 31, 2017 was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. The Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2017.

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

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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 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. The following table summarizes fair value measurements by level at June 30, 2018 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Deferred compensation plan assets (included in other non-current assets)	\$ 3	\$ —	\$ —	\$ 3
Interest rate swaps (included in other non-current assets)	—	12	—	12
Interest rate swaps (included in other non-current liabilities)	—	7	—	7
Contingent consideration for acquisitions (included in accrued expenses and other current liabilities and other non-current liabilities)	—	—	29	29

The following table summarizes fair value measurements by level at December 31, 2017 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Deferred compensation plan assets (included in other non-current assets)	\$ 3	\$ —	\$ —	\$ 3
Interest rate swaps (included in other current and non-current liabilities)	—	13	—	13
Contingent consideration for acquisitions (included in accrued expenses and other current liabilities and other non-current liabilities)	—	—	34	34

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, 2017	\$ 34
Additions: contingent consideration related to acquisitions completed during the period	—
Reductions: payments of contingent consideration	(4)
Changes in fair value (reflected in the Consolidated Statement of Operations)	(1)
Fair value of contingent consideration at June 30, 2018	\$ 29

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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	June 30, 2018		December 31, 2017	
	Principal Amount	Estimated Fair Value (a)	Principal Amount	Estimated Fair Value (a)
Senior Secured Credit Facility:				
Revolving Credit Facility	\$312	\$ 312	\$ 70	\$ 70
Term Loan B	1,075	1,071	1,083	1,085
Term Loan A Facility:				
Term Loan A	745	745	391	393
Term Loan A-1	—	—	342	343
4.50% Senior Notes	450	450	450	457
5.25% Senior Notes	550	549	550	569
4.875% Senior Notes	500	470	500	495
Securitization obligations	261	261	194	194

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

Equity Method Investments

At June 30, 2018 and December 31, 2017, the Company had various equity method investments aggregating \$56 million and \$74 million, respectively, which are recorded within other non-current assets on the accompanying Condensed Consolidated Balance Sheets. The \$56 million investment balance at June 30, 2018 included \$48 million for the Company's investment in Guaranteed Rate Affinity, LLC ("Guaranteed Rate Affinity"). The Company's interest in PHH Home Loans, LLC ("PHH Home Loans") was sold to a subsidiary of PHH Corporation in the first quarter of 2018. The \$74 million investment balance at December 31, 2017 included \$48 million for the Company's investment in Guaranteed Rate Affinity and \$19 million for the Company's remaining investment in PHH Home Loans. The Company received net cash proceeds of \$19 million reducing the investment balance to zero in the first quarter of 2018.

For the three months ended June 30, 2018, the Company recorded equity earnings of \$2 million at the Title and Settlement Services segment. For the six months ended June 30, 2018, the Company recorded equity losses of \$2 million at the Title and Settlement Services segment primarily related to costs associated with the ramp up of operations of Guaranteed Rate Affinity during the first quarter of 2018. The Company recorded no earnings related to its equity investments for the three months ended June 30, 2017 and \$3 million in losses primarily related to the recognition of certain exit costs at PHH Home Loans for the six months ended June 30, 2017.

The Company received \$1 million and \$2 million in cash dividends from equity method investments during the six months ended June 30, 2018 and 2017, respectively. The Company invested \$4 million into Guaranteed Rate Affinity during the first quarter of 2018.

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 in the period in which they occur. The provision for income taxes was an expense of \$52 million and \$73 million for the three months ended June 30, 2018 and 2017, respectively, and an expense of \$33 million and \$64 million for the six months ended June 30, 2018 and 2017, respectively. There were no changes to the net benefit recorded during the year ended December 31, 2017 relating to the 2017 Tax Act which was a provisional amount that reflected the Company's reasonable estimate at the time.

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, British Pound, Swiss Franc and Canadian Dollar. The Company has not elected to utilize hedge accounting for these forward contracts; therefore, any change in fair value is recorded in the Condensed

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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 June 30, 2018, the Company had outstanding foreign currency forward contracts in a liability position with a fair value of \$1 million and a notional value of \$23 million. As of December 31, 2017, the Company had outstanding foreign currency forward contracts in a liability position with a fair value of less than \$1 million and a notional value of \$25 million.

The Company also enters into interest rate swaps to manage its exposure to changes in interest rates associated with its variable rate borrowings. Interest rate swaps with a notional value of \$425 million expired February 10, 2018. As of June 30, 2018, the Company had interest rate swaps with an aggregate notional value of \$1,600 million to offset the variability in cash flows resulting from the term loan facilities as follows:

Notional Value (in millions)	Commencement Date	Expiration Date
\$600	August 2015	August 2020
\$450	November 2017	November 2022
\$400	(a) August 2020	August 2025
\$150	(a) November 2022	November 2027

(a) During the second quarter of 2018, the Company entered into four new forward starting interest rate swaps, two with a notional value of \$125 million and two with a notional value of \$150 million.

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:

Not Designated as Hedging Instruments	Balance Sheet Location	June 30, December 31,	
		2018	2017
Interest rate swap contracts	Other non-current assets	\$ 12	\$ —
	Other current and non-current liabilities	7	13

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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest rate swap contracts	Interest expense	\$—	\$ 5	\$(12)	\$ 4
Foreign exchange contracts	Operating expense	\$(1)	\$ 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 \$9 million and \$7 million at June 30, 2018 and December 31, 2017, respectively.

Supplemental Cash Flow Information

Significant non-cash transactions during both the six months ended June 30, 2018 and 2017 included capital lease additions of \$8 million, which resulted in non-cash additions to property and equipment, net and other non-current liabilities.

Stock-Based Compensation

During the first quarter of 2018, the Company granted 0.4 million shares of non-qualified stock options for a weighted exercise price of \$25.35 and 1.1 million shares of restricted stock units ("RSUs") at a weighted average grant date fair value of \$25.45.

Effective March 1, 2018, the Board approved, subject to stockholder approval at the 2018 Annual Meeting, the Realogy Holdings Corp. 2018 Long-Term Incentive Plan, as amended (the "2018 LTIP"). Options and RSUs included in the 2018 LTIP were granted on March 1, 2018. In addition to these awards, RSUs and PSUs aggregating 0.8 million shares were also awarded on March 1, 2018, but the grant was subject to approval of the 2018 LTIP at the 2018 Annual Meeting of

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Stockholders held on May 2, 2018. The stockholders approved the 2018 LTIP at the May 2, 2018 Annual Meeting and the Company accordingly treated May 2, 2018 as the grant date for these awards and will expense these awards, which had a weighted average grant date fair value of \$25.04, from that date over the balance of the vesting or performance period.

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.

The Company's Board of Directors authorized a share repurchase program of up to \$275 million, \$300 million and \$350 million of the Company's common stock in February 2016, 2017 and 2018, respectively.

As of June 30, 2018, the Company had repurchased and retired 24.3 million shares of common stock for an aggregate of \$674 million at a total weighted average market price of \$27.80 per share, including 4.1 million shares of common stock repurchased during the second quarter of 2018 for \$101 million at a weighted average market price of \$24.94 per share. As of June 30, 2018, \$251 million remained available for repurchase under the February 2018 share repurchase program.

Dividend Policy

In August 2016, the Company's Board of Directors approved the initiation of a quarterly cash dividend policy of \$0.09 per share on its common stock. The Board declared and paid a quarterly cash dividend of \$0.09 per share of the Company's common stock during both the first and second quarters of 2018.

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 May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers" (the "new revenue standard"). The objective of the new 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. After a review of the Company's revenue streams, the Company determined that the new revenue standard did not have a material impact on financial results as the majority of the Company's revenue is recognized at the completion of a homesale transaction which did not result in a change in the timing of recognition of revenue transactions under the new revenue standard. The Company adopted the new revenue standard on January 1, 2018 using the modified retrospective transition method in which the cumulative effect of applying the new revenue standard was recognized as an adjustment to the opening balance of retained earnings. See Note 2, "Revenue Recognition" for further details.

In February 2018, the FASB issued a new standard which permits companies to reclassify certain income tax effects resulting from the 2017 Tax Act, called "stranded tax effects", from accumulated other comprehensive income ("AOCI") to retained earnings. According to the new guidance, the reclassification amount should include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the 2017 Tax Act related to items remaining in AOCI. The guidance is effective for all companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption is permitted. The Company early adopted this standard in the first quarter of 2018 which resulted in a debit to Accumulated other comprehensive loss and a credit to Accumulated deficit for \$9 million. The Company's accounting policy for releasing income tax effects from AOCI is to release those effects when our entire portfolio of the type of item is liquidated.

In June 2018, the FASB issued a new standard related to non-employee share-based payment accounting. The new guidance eliminates specific accounting for non-employee share-based payments and aligns the treatment for awards issued to employees and non-employees reducing the complexity of measurement of non-employee awards and creating a single

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accounting model. The new standard is applied to all new awards granted after the date of adoption. In addition, all liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established by the adoption date should be remeasured at fair value as of the adoption date with a cumulative effect adjustment to opening retained earnings in the fiscal year of adoption. If early adoption of the new guidance is chosen in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company elected to early adopt this guidance during the second quarter of 2018. There was an immaterial impact upon adoption.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). 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 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, leases will 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, with early adoption permitted, requiring a modified retrospective transition approach. In July 2018, the FASB issued an ASU that allows entities to apply the provisions of the new guidance at the effective date (e.g., January 1, 2019), as opposed to the earliest period presented under the modified retrospective transition approach (January 1, 2017), and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is still evaluating the impact of the standard on its consolidated financial statements. Future lease obligations are disclosed in Note 13. "Commitments and Contingencies" of the Annual Report on Form 10-K for the year ended December 31, 2017. The Company is in the process of evaluating its policies and internal controls as well as implementing a new lease management system which will be utilized to account for leases under the new guidance once adopted.

2. REVENUE RECOGNITION**Adoption of the New Revenue Standard**

Effective January 1, 2018, the Company adopted the new revenue standard using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard; however, the comparative prior period amounts have not been restated and continue to be reported in accordance with historic accounting under ASC Topic 605. The majority of the Company's revenue continues to be recognized at the completion of a homesale transaction under the new revenue standard, however as a result of the adoption the Company recognized additional contract liabilities and deferred assets associated with certain other revenue streams. As of January 1, 2018, the Company recorded a net debit to its opening Accumulated deficit of \$22 million, net of tax, due to the cumulative impact of adopting the new revenue standard, with the impact primarily related to the recognition of additional contract liabilities for initial area development fees and deferred assets for prepaid commissions.

Contract Liabilities for Initial Area Development Fees ("ADF"):

Contract liabilities are recorded when cash payments are received or due in advance of the Company's performance. The Company records these as deferred revenues and are classified as current or non-current liabilities in the Condensed Consolidated Balance Sheets based on the expected timing of revenue recognition.

The Real Estate Franchise Services segment collects an initial ADF for international territory transactions, which are recorded as deferred revenue when received and recognized into revenue over the term of the agreement, typically 25 years, as consideration for the right to access and benefit from Realogy's brands. In the event an ADF agreement is terminated prior to the end of its term, the unamortized deferred revenue balance will be recognized into revenue immediately upon termination. ADFs were recognized as revenue upfront when received under historical guidance.

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Prepaid Commissions:

The incremental direct costs of obtaining a contract, which primarily consist of franchise sales commissions, are deferred and amortized generally over the estimated life of the customer relationship for domestic and international contracts. The Company classifies prepaid commissions as current or non-current assets in the Condensed Consolidated Balance Sheets based on the expected timing of recognizing expense.

The Real Estate Franchise Services segment recognizes a deferred asset for commissions paid to Realogy franchise sales employees upon the sale of a new franchise. The amount of commissions is calculated as a percentage of the anticipated gross commission income of the new franchisee or the amount of the ADF and is amortized on a straight-line basis over the estimated life of franchise customer relationships, 30 years for domestic franchise agreements, or the agreement term for international franchise agreements which is generally 25 years. Franchise sales commissions were expensed upfront when paid under historical guidance.

Practical Expedients and Exemptions:

The Company elected to apply the practical expedient that only requires the Company to apply the revenue standard to contracts that were open as of the beginning of the earliest period presented which impacted the amount of prepaid commissions capitalized.

The majority of the Company's contracts are transactional in nature or have a duration of one-year or less.

Accordingly, the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The cumulative effect of the changes made to the Condensed Consolidated Balance Sheets for the adoption of the new revenue standard were as follows:

	Balance Sheet accounts prior to the new revenue standard adoption adjustments	Adjustments due to the adoption of the new revenue standard	Balance Sheet accounts after the new revenue standard adoption adjustments
ASSETS			
Current assets:			
Trade receivables	\$ 153	\$ 1	\$ 154
Other current assets	179	2	181
Total current assets	789	3	792
Other non-current assets	222	23	245
Total assets	\$ 7,337	\$ 26	\$ 7,363
LIABILITIES AND EQUITY			
Current liabilities:			
Accrued expenses and other current liabilities	\$ 478	\$ 2	\$ 480
Total current liabilities	955	2	957
Deferred income taxes	327	(8)	319
Other non-current liabilities	212	54	266
Total liabilities	4,715	48	4,763
Equity:			
Accumulated deficit (a)	(2,622)	(22)	(2,644)
Accumulated other comprehensive loss (a)	(46)	—	(46)
Total stockholders' equity	2,618	(22)	2,596
Total equity	2,622	(22)	2,600
Total liabilities and equity	\$ 7,337	\$ 26	\$ 7,363

(a) Beginning balances have been adjusted for the adoption of the accounting standard update on stranded tax effects related to the 2017 Tax Act which resulted in a debit to Accumulated other comprehensive loss and a credit to Accumulated deficit of \$9 million. See Note 1, "Basis of Presentation" in the "Recently Adopted Accounting Pronouncements" section for additional information.

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The impact of adopting the new revenue standard, as compared to historic guidance under ASC Topic 605, was immaterial to the Company's Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2018.

Revenue Recognition

Revenue is recognized upon the transfer of control of promised services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services in accordance with the new revenue standard. The Company's revenue is disaggregated by major revenue categories on our Condensed Consolidated Statements of Operations and further disaggregated by business segment as follows:

Three
Months
Ended
June 30,
2018 vs
June 30,
2017 (e)
Real Estate
Franchise
Services